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ABSTRACT

This volume presents papers from a 1988 conference on collegiate student financial aid which focused on trends in the cost of higher education, student loan defaults, trends in borrowing, the impact of congressional legislation, and state-level financial aid research. The papers are grouped in five sections corresponding to the five topics, and each section begins with abstracts of the papers it contains. Section I: "Major Trends in the Cost of Higher Education and Student Aid" contains "College Costs and Student Aid" (Kenneth C. Green); "Pell Grant Program Changes and Their Effects on Applicant Eligibility, 1973-74 to 1988-89" (Tom G. Mortenson) and "Trends in Financial Aid Among Blacks and Non-Blacks in Maryland" (Michael J. Keller). Section II: "Understanding and Addressing Student Loan Defaults" contains "The Operation of the Guaranteed Student Loan Program in Minnesota, 1977-1985" (Saul Schwartz and Sandy Baum), "The Reduction of Student Loan Defaults in New Jersey" (Lutz K. Berkner), "Toward an Understanding of Why Defaulters Repay" (Marilyn Pedalino and Cynthia Chopick), "Student Loan Defaults: One State's Approach" (Robert Fomer), and "Identification of High Risk Borrowers" (Richard H. Wedemeyer). Section III: "Trends in Student Borrowing" contains "The Changing Patterns of Supplemental Borrowing: A Profile of Emerging Family Education Debt" (Thomas D. Parker); "The New England Student Loan Survey: The Impact of Student Loans on Borrowers" (Sandy Baum and Saul Schwartz), "Borrowing Patterns Among Graduate and Professional School Students" (James P. Honan). Section IV: "Projecting the Impact of Congressional Methodology" offers "The Impact of Congressional Methodology on New Jersey Dependent College Undergraduate Aid Eligibility" (Lutz K. Berkner), "The Impact of Congressional Methodology on the Minnesota State Scholarship and Grant Program" (Gerald L. Setter), "Impact of Congressional Methodology on University of Minnesota Twin Cities Campus Financial Aid Applicants" (Reed Carpenter). Section V presents "State-Level Options in Financial Aid Research" (Porfirio Diaz, John Klacik, and Marilyn Sango-Jordon). A final section lists conference attenders with addresses and telephone numbers. (JB)

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Section I

Major Trends in the Cost of Higher Education and Student Aid

Major Trends in the Cost of Higher Education and Student Aid

Abstracts

College Costs and Student Aid, *Kenneth C. Green*

Tuition increases have out-paced inflation in recent years, but institutions are not neglecting aid to student. The campus contribution to student financial aid programs has grown far more than the recent increases in tuition. This increased institutional role in financial aid is directly linked to the reduced eligibility for federal aid which has affected tens of thousands of families over the past six years. And it comes at great cost to institutions, which must continue to defer infrastructures to underwrite aid for their students.

These statements are based on analyses of data from two sources: (a) the annual freshman survey data of the ACE-UCLA Cooperative Institutional Research Program (CIRP), the nation's largest and oldest empirical study of higher education, and (b) the annual freshman financial aid survey conducted by Peterson's Guides, one of the nation's premier publishers of resource books on higher education.

Pell Grant Program Changes and Their Effects on Applicant Eligibility, 1973-74 to 1988-89, *Tom G. Mortenson*

This paper examines the effects of changes in the design of the Pell Grant Program on applicant eligibility over the sixteen years between 1973-74 and 1988-89. The primary measure of these effects is the purchasing power of the Pell Grant for financial aid applicants relative to the college attendance costs they face. The eligibility for Pell Grants is determined for representative dependent and independent cases at three kinds of higher educational institutions. This eligibility is compared to the actual college attendance costs faced by students attending these colleges. The paper then identifies the design components of the Pell Grant Program that have been changed in ways that alter applicant eligibility for Grants, and explores their implications.

The paper concludes that during the sixteen year life span of the Pell Grant Program, Congress has shifted the focus of Pell Grants away from lowest resource aid applicants toward applicants from more middle income backgrounds, and that this shifting focus will continue

in the 1988-89 award year. Applicants whose income and assets produced the highest eligibility for Pell Grants have seen the maximum Pell Grant increase by 50 percent since 1975-76. During this same period of time, the college costs they faced increased by about 150 percent. Pell Grants have lost purchasing power since 1975-76 for six of the eight Pell applicant cases examined in this study. In only one case did applicant eligibility increase.

Other students with discretionary income above amounts protected from assessment toward the family contribution have received new or expanded eligibility as a result of program changes made by Congress. These changes include reduced assessment rates against discretionary income, the addition of an allowance for state and local taxes, and increased multiple student offsets — changes that benefit only higher income applicants with discretionary family resources.

Under the constraint of limited program funding, the enhancements to Pell eligibility for the applicants who gained eligibility have been financed partially but significantly by the loss of Pell Grant purchasing power for those who were the original focus of the Basic Educational Opportunity Grant Program.

Trends in Financial Aid Among Blacks and Non-Blacks in Maryland, *Michael J. Keller*

This paper describes the level of financial assistance received by Black students attending Maryland's public colleges and universities. The study also compares the level of financial aid to Blacks to assistance received by Non-Blacks. Specifically, this paper focuses on trends in various types of financial support received by undergraduate and graduate/professional students enrolled at a Maryland public college or university between Fall 1981 and Fall 1985.

The data presented in this paper suggest that cuts in the availability of federally-funded grants and scholarships during the last several years have had a sharp impact on the way Maryland's Black students are paying for their college education. The number of Black undergraduates who received grants fell far more steeply than did the Black enrollment rate. Likewise, there was a steady decline in the proportion of all Black undergraduates who obtained grants. At the same time, the number of Blacks with loans rose as did the amounts being borrowed. The median debt incurred for education-related expenses by Blacks soared between 1983 and 1985.

College Costs and Student Aid[1]

Kenneth C. Green, Ph.D.

Associate Director
Higher Education Research Institute University of California, Los Angeles

Rising college costs have been the subject of substantial public discussion over the past year or so. Departing Education Secretary William Bennett has been very outspoken on this issue, criticizing the nation's colleges because tuition and related costs have been rising faster than inflation.[2] However I think it is fair to say that the Secretary and other senior officials in the Department have been somewhat selective about their use of the data on college costs and, equally important, information about student participation in various financial aid programs. Department officials have not provided members of Congress or the American people with some key information about recent trends in student participation in aid programs and data on campus expenditures for financial aid. Both these issues have a direct impact on college costs.

The real news about college costs and financial aid is that the nation's colleges and universities are funding a growing share of student financial aid. Criticism about rising tuition overlooks the fact that a significant portion of the financial aid burden has passed from government to colleges since 1980. The rising institutional role in financial aid is a direct consequence of the reduced student eligibility for Pell Grants over the past six years and real decline in the value of the federal aid students do receive. *In short, institutions are using their own funds to replace the money previously available to many students through government sources.*

I make these statements based on analyses of data from two sources: (a) the annual freshman survey data of the ACE-UCLA Cooperative Institutional Research Program (CIRP), the nation's largest and oldest empirical study of higher education, and (b) the annual freshman financial aid survey conducted by Peterson's Guides, one of the nation's premier publishers of resource books on higher education. Using data from these and other sources I will document recent trends in freshman participation in financial aid programs and the expanding campus role in underwriting student financial aid.

The CIRP Freshman Survey Data

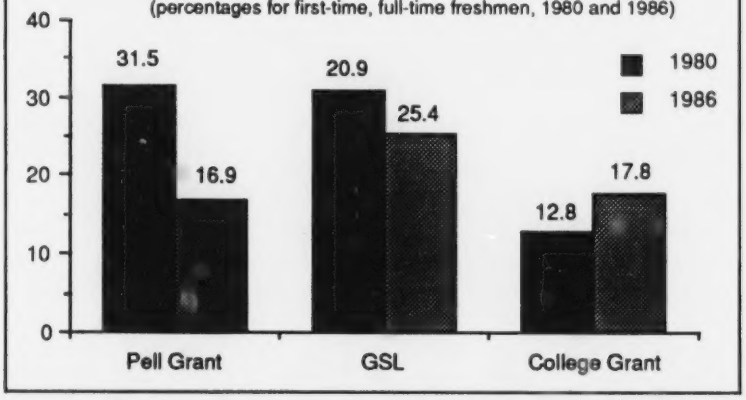
Since 1966 the Cooperative Institutional Research Program (CIRP) has provided an annual normative profile of the students entering the nation's colleges and universities. Each year some 575 institutions and over 280,000 students participate in this program. These data are used to develop a normative profile of the 1.6 million first-time, full-time students entering American colleges and universities. More than 6 million students and some 1,300 institutions have participated in the CIRP freshman surveys since 1966.[3]

In addition to data about demographic characteristics, degree aspirations, career goals, expectations of college, values, attitudes, and experiences in high school, the CIRP freshman survey also collects information about freshman participation in various financial aid programs. *The freshman survey data point to dramatic changes in student access to and participation in financial aid programs since 1980.*

The CIRP data reveal that freshman participation in the Pell Grant program declined by nearly half between 1980 and 1986. Only 16.9 percent of the first-time, full-time freshmen who entered college in 1986 received a Pell Grant, down from 19.9 percent in 1985 and 31.5 percent in 1980. Although fewer freshman have grants, more now assume loans to cover college costs. Freshman participation in the Guaranteed Student Loan (GSL) program increased by almost one-fourth during this same period: in 1986, one freshman in four (25.4 percent) assumed some loan obligation through the GSL program, up from 23.0 percent in 1985 and 20.9 percent in 1980 (Figure 1).

Figure 1: Freshman Participation in Student Aid Programs

(percentages for first-time, full-time freshmen, 1980 and 1986)

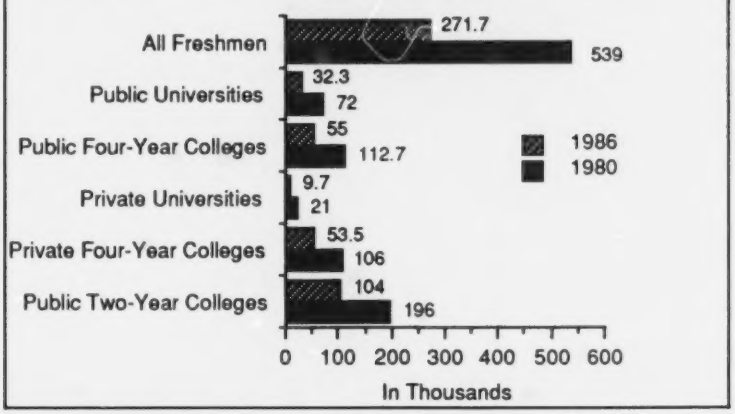


Source: CIRP Freshman Survey, Higher Education Research Inst., UCLA

These declines in the *proportion* of freshmen participating in the Pell Grant program translate into significant *numbers* of students. For example, between Fall 1980 and 1986, participation in the Pell Grant program fell by an estimated 267,000 first-time, full-time freshmen (Figure 2).

Figure 2: Estimated Number of Freshman Participants in the Pell Grant Program, Fall 1980 and 1986

(percentages for first-time, full-time freshmen, by institutional type)

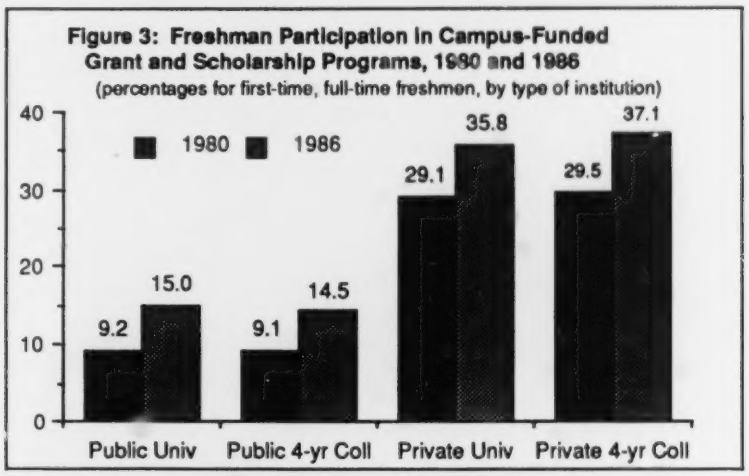


Source: CIRP Freshman Survey, Higher Education Research Inst., UCLA

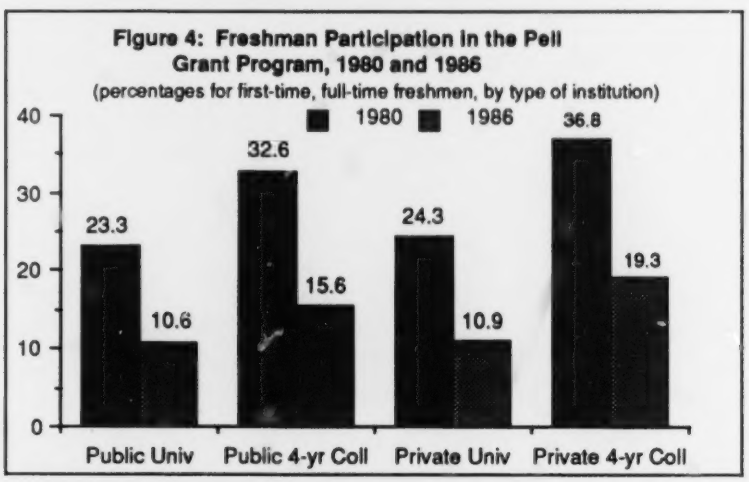
Concurrent with this shift in freshman participation in federal programs has been a substantial (40 percent) increase in the proportion of freshmen receiving a campus-funded grant or scholarship. (See Figure 1.) Taken together, these data indicate that (a) federal grants to students in collegiate institutions declined substantially between 1980 and 1986, and (b) both public and private institutions have assumed a rising portion of the financial aid burden for their students. In other words, *campuses are using institutional funds to replace the federal aid which is no long available to a growing number of their students.* Operating funds which might otherwise go to faculty salaries, program enhancement, physical plant repairs and improvements, and to science and computer labs are now being allocated to student aid.

The growing use of institutional funds to underwrite student aid has occurred in all sectors. Somewhat surprisingly, the overall increase in student participation in campus grant programs has been greater among (less-expensive) public institutions than in private colleges and universities. Between 1980 and 1986, the proportion of entering freshmen receiving a campus grant or scholarship rose by 64 percent in public universities and by 69 percent in public four-year colleges (Fig-

ure 3). In contrast, freshman participation in the Pell Grant program among students in public institutions declined by 45 percent in public universities and by 47.8 percent in public four-year colleges (Figure 4).



Source: CIRP Freshman Survey, Higher Education Research Inst., UCLA



Source: CIRP Freshman Survey, Higher Education Research Inst., UCLA

The proportion of freshmen receiving institutionally-funded aide rose by about one-fourth in both private universities (at 23 percent) and private four-year colleges (26 percent) between 1980 and 1986 (Figure 3). Similarly, freshman participation in the Pell Grant program for students in independent institutions fell about half between 1980 and 1986 (44.8 percent in private universities and 52.5 percent in private four-year colleges). (See Figure 4.)

These shifts in student participation in the Pell and GSL programs (and the resulting increases in campus aid) are directly tied to recent changes in the eligibility guidelines that govern federal aid programs. Between 1980 and 1986, real (i.e., constant dollar) eligibility for Pell Grants and other aid declined by 30 percent. What does this mean? In Fall 1980, families with incomes under $32,500 (in 1980 dollars) had a reasonable prospect of being eligible for Pell Grant assistance. Adjusting for inflation, that $32,500 would translate into just over $41,000 in 1986 dollars. However, the ceiling for aid eligibility in Fall 1986 was about $28,500, a real (i.e., constant dollar) eligibility reduction of just over 30 percent. Consequently, the aid eligibility reductions implemented over the past six years mean that *many families who were eligible for Pell support in 1980 (and whose real dollar income has not changed over this period) were not eligible for aid in 1986.*

A hypothetical example helps illustrate this situation. In 1980 the Smith family prepares to send their son or daughter off to college. Their total family income is about $30,000 (in 1980 dollars): Mr. Smith makes $25,000 while his wife's part-time job brings in another $5,000. The Smiths apply for and receive a Pell Grant, their income being less than the $32,500 ceiling operant in 1980.

In 1986, the second child in the Smith family applies for college. Mr. Smith now makes about $30,000, although his wife is no longer working part-time. Despite the fact that their *real* income has declined about 27 percent, the Smiths learn that they are no longer eligible for a Pell Grant, as the their current income is above the new eligibility ceiling. Thus, even though the Smiths are really less affluent than they were in 1980, they now learn that they are too "well-off" to receive aid.

This hypothetical example reflects the real experience of tens of thousand of families over the past six years.

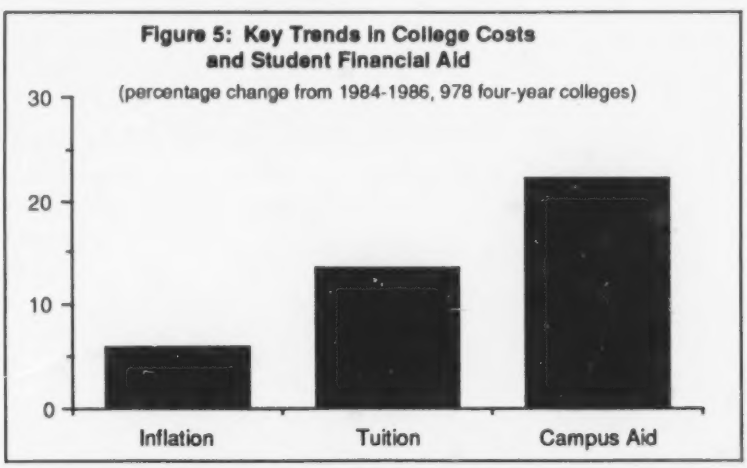
Institutional Financial Data

In addition to the CIRP freshman survey cited above, evidence from other sources also documents the increasing institutional role in financial aid.

Some of the best financial data on the growing aid burden assumed by campuses comes from special analyses of an annual conducted by

Peterson's Guide, the publisher of some of the most widely used reference guides on American colleges and universities. Each year Peterson's surveys college admissions officers to obtain information about enrollment, admissions rates, and program offerings, and related issues that concern students and parents going through the college selection and application process. An annual Freshman Financial Aid Survey collects data about financial aid, including the actual dollar amount of institutionally-funded grants and scholarships awarded to entering freshmen.[4]

The Peterson's data indicate that campus-funded aid for entering freshmen is up substantially at colleges across the country. Between 1984 and 1986, institutional aid (i.e., grants and scholarships) for entering freshmen at four-year institutions increased by more than one-fifth (22.3 percent), compared to a 13.6 percent increase in tuition and a 6 percent increase in the Consumer Price Index (see Figure 5). Indeed, many campuses experienced a 25 or 30 percent (or greater) increase in the dollars allocated for campus-funded freshman grants and scholarships during this period. These increases in the campus contribution to student aid are almost two-thirds (64 percent) again the increase in tuition and fees and almost four times the inflation factor during this same period.

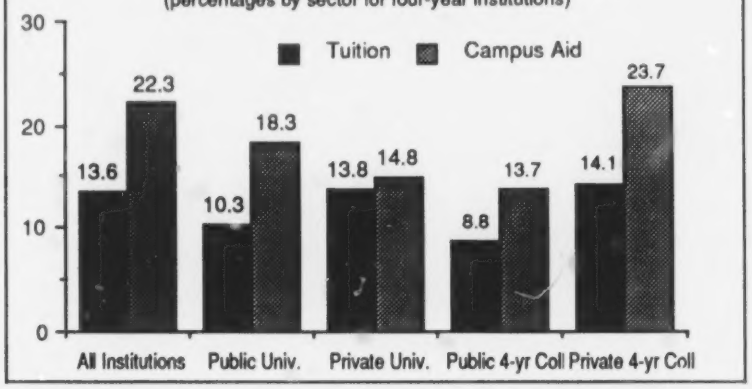


Source: HERI analyses of Peterson's Freshman Financial Aid Surveys

The pattern of the campus-funded aid increases is fairly consistent across almost all sectors (Figure 6). Institutional assistance increased roughly two-thirds more than increases in tuition charges between 1984 and 1986 at all public four-year institutions and in private four-year colleges.

Other data provide additional evidence of the growing role of institutional funds in supplanting the resources formerly available to students from the federal government. Unpublished data collected by the Indiana Commission on Higher Education in cooperation with the Independent Colleges and Universities of Indiana (ICUI) for a dozen of the 33 independent institutions in that state show that the increase in the proportion of fee revenues (the major source of revenue almost certainly for all 12 of the colleges) going back to students as aid rather than into instructional programs or the physical plan is dramatic.

Figure 6: Increases in Tuition Charges and Freshman Aid from Institutional Sources, 1984-1986
(percentages by sector for four-year institutions)



Source: HERI analyses of Peterson's Freshman Financial Aid Surveys

Data collected over a similar period on independent institutions in California by the California Postsecondary Education Commission (CPEC) suggest similar trends. For its 1985 study of the status of the independent sector in California, CPEC obtained three years of data on the sources of financial aid for private college and university student for three academic years. Between 1982-83 and 1984-85, California's independent institutions increased their student aid expenditures from current operating budgets, endowments, and private fund-raising by more than 31 percent, in contrast to a 22 percent increase in tuition and related charges during this period.[5]

One final and very important point on this issue. The Higher Education Research Institute recently completed a major national study of student financial aid programs. Our analyses reveal that increases in state student aid do not lead to increased tuition charges in private institutions: rather, well-funded state-funded student aid programs help reduce tuition increases in private institutions.[6] This finding confirms our interpretation of recent trends in federal aid: *rather than*

encouraging institutions to raise tuition, student aid programs keep tuition costs from rising.

Impact of the Changing Aid Environment on Student Choice

The continuing changes in aid eligibility severely affects family efforts to plan for college costs. Research on factors affecting access and matriculation point to the student's *perception* of the family's ability to pay for college as perhaps the most critical factor in determining where the student might apply and where he or she will ultimately matriculate.[7] And increasing numbers of students now find their college options somewhat diminished because of declining eligibility for federal assistance.

Referring back to the hypothetical Smith family, college-planning decisions made on the basis of the experience with their first child in 1980 were irrelevant when the second child went off to college six years later. Although the Smith family was eligible for assistance in 1980, they could not get aid in 1986, even though the real dollar value of their family income had actually declined in six years. The shrinking eligibility has made it extremely difficult for families to plan for the costs of college.

These trends are reflected in the CIRP freshman survey data. Between 1980 and 1986, the proportion of freshmen from families with incomes under $25,000 (1986 dollars) declined by one-tenth, while the proportion of freshmen from families with incomes under $40,000 (again, 1986 dollars) declined by almost 20 percent. For a growing number of American parents, the goal of sending children to college now appears to be an increasingly difficult, if not impossible, dream.

This instability in the financial aid environment, coupled with declining aid eligibility, has also affected the matriculation decisions of students who do go on to college. Campus officials talk of a "buying down" phenomenon which has occurred in recent years. Students who might have enrolled in private institutions are now opting for public campuses. Students who would have preferred to attend the state university are not opting in increasing numbers for public colleges closer to home. And increasing numbers of students are matriculating as commuters, living at home while attending a local four-year or community college.

Ample research suggests that these decisions, while made to save money, ultimately affect the overall quality of the educational experiences available to these students and adversely affect such things as likelihood of completing a degree, amount of contact with faculty, and satisfaction with the undergraduate experience.[8]

Rising Costs – or Reduced Subsidy?

As noted above, Education Department officials have been extremely critical of the nation's colleges on the tuition issue. However, the data presented above clearly indicate that a substantial portion of what some critics might view to be "excessive" costs associated with the greater-than-inflation increase in college tuition are being used for student aid. The increased campus role in underwriting student aid is a direct response to the significant decline in aid eligibility since 1980.

Tuition charges, no matter how high, do not fully reflect the real costs of anyone's college education. All institutions provide some subsidy to their students, even to those students who do not receive any financial assistance. Among private institutions this subsidy typically runs about 25 percent (and often more) of the actual costs of education; it is substantially higher in the public sector. The difference between total tuition revenues and actual operating costs comes from alumni and corporate gifts, endowment income, and other revenues. Additionally, state funding is a major component of the subsidy for student in public institutions.

There is an important argument to be made that the recent round of greater-than-inflation tuition increases actually reflect a *reduction in subsidy* to the students who can best afford to pay the full costs of attending college.

How are campuses using what some critics might view to be the "excess" funds they realize from the recent tuition increases? Certainly these funds are going towards increasing faculty salaries (which have remained substantially behind inflation over the past two decades) and improving campus facilities such as aging buildings, science labs, classrooms, and computer facilities. *However, a significant portion of these revenues is also going right back into campus-funded grant and scholarship programs.*

A recent survey of senior campus officials conducted by Elaine-El-

Khawas of the American Council on Education provides convincing evidence that tuition increases are linked to the growing campus responsibility to provide financial aid. Financial aid programs ranked second, after support for academic programs, as a key factor in campus decisions about tuition.[9]

It is clear that the public criticism about tuition increases from some Education Department officials is unjustified. As noted above, there is hard evidence that campuses have assumed a significant portion of the responsibility for providing financial aid previously held by the federal government. Indeed, Department officials should be praising the nation's colleges for providing student aid and support at a time when the federal government cannot. They should be telling the American people and the Congress that the nation's colleges have been doing an outstanding job of assuring access and providing financial support as the institutions have replaced a significant portion of the financial aid "lost" because of budget cuts mandated by the federal deficit.

Consequences for the Educational Infrastructure

There is a limit to how long the nation's colleges and universities can continue to provide the financial assistance previously available to many families by the federal government. The funds which institutions must now allocate to underwrite financial aid programs reduce the institutional resources which should go to address critical *infrastructure* issues: science labs, computer equipment, physical plant, etc. These things all compete with student aid for limited institutional dollars.

Colleges and universities confront increasing pressures to undertake the long deferred maintenance of their physical plants, to modernize their computer facilities and science labs, to train our best and our brightest, and to play a major role in the nation's economic development through research, training, and teaching. Yet colleges have limited financial resources. If the campus money goes to student aid it can not be used for science labs, classrooms, libraries, and computers.

Too, for a nation that continues to talk about education as the fuel for economic development, it seems as if we are retreating from rather than advancing towards some of our educational goals. The federal government is investing less money in aid for our model or traditional college students, precisely at the time when corporate leaders and

some government officials thing we should be increasing the national investment in education.[10]

Real Issues Confronting American Families

The increasingly intense and partisan debate about the impact of financial aid policies seems to overlook the real experience of tens of thousands of American families who are attempting to plan for their children's college expenses during a period of unstable financial aid policy. Far removed from the ongoing debate and the reams of new data is the fact that the middle-income families continue to hear that there will be less federal financial support to assist their efforts to send their children to college.

Many families have become increasingly discouraged by the news, which seems to accompany each annual budget message, that the current Administration wants to reduce aid programs for college students. The simple message of additional student aid reductions — seen in the morning newspaper, heard over the car radio on the way to work, or broadcast as part of the evening news — sends a chilling message to families who want nothing more than to provide their children with a college education.

Let me note here the irony of Secretary Bennett's recent report on James Madison High School. Many of the middle-income graduates of the curriculum so strongly endorsed by the Secretary would experience real problems financing their college education under policies proposed by the Administration and Department officials in recent years.

Yet let's be clear that the American people care about education. They recognize its importance as a strategic resource for the nation and value it for the opportunities it can provide their children. But for the past six years they have heard or inferred that financial aid will not be available to send their children to college.

Let's be clear that this has consequences that go beyond the life earnings of any one aspiring student. We hear more and more these days about competitiveness and the nation's need for a well-trained and highly-skilled labor force. Our colleges and universities play a critical role in training, talent development, scientific research, and technological dissemination. If students are convinced that they cannot afford to go to college, then they will not go. And this will have dire

consequences for us: it will affect our scientific productivity and our economic competitiveness, among other things.

I should note that some solutions are on the horizon. Indeed, some of the most interesting solutions are coming from the states and not from the federal government. Several states are examining tuition pre-payment programs that look very encouraging. The Michigan legislature has already passed a tuition pre-payment program; other states are looking at the Michigan model very carefully. However, these programs offer only a long-term solution: they will not mature and become operational for at least 10-15 years. Consequently they will not provide a solution to the financial aid problems that affect college students, their families, and the nation's colleges today, tomorrow, and for years to come.

Conclusion

The data presented above provide hard evidence of the growing campus role in underwriting student financial aid. Yes, tuition increases have been greater than inflation in recent years; but the campus contribution to student financial aid programs has grown far more than the recent increases in tuition. This increased institutional role in financial aid is directly linked to the reduced eligibility for federal aid which has affected tens of thousands of families over the past six years. And it comes at great cost to institutions, which must continue to defer infrastructure expenditures to underwrite aid for their students.

Families need to know that there will be some stability in financial aid programs and policies. In short, policy makers in the Congress and the Administration cannot continue to change the rules, enfranchising and then disenfranchising families from aid programs like the ebb and flow of the tide. We need a stable set of financial aid policies and programs which help both families and campuses plan for the future.

Endnotes

[1] Keynote presentation at the 1988 NCHELP/NASSCGP Conference in Denver, May 25, 1988. This paper is based on an earlier statement prepared for public hearings on college costs held by the Subcommittee on Postsecondary Education, United States House of Representatives, Washington D. C., September 15, 1987. The author thanks Peter Hegener, President, and Karen Hegener, Editor-in-Chief, of Peterson's Guides for generously allowing the author access to data tapes from their annual financial aid surveys. Kenneth C. Green, 1988.

[2] See, for example, Edward M. Fiske, "Tuitions at New Peak, Heating Cost Debate," in the *New York Times*, May 12, 1987, pp. 1, 11.

[3] The CIRP, begun in 1966 by the American Council on Education (ACE), is now based at UCLA's Higher Education Research Institute, under the joint sponsorship of ACE and UCLA. For the most recent report of the freshman survey program please see Alexander W. Astin, Kenneth C. Green, William S. Korn, and Marilynn Schalit, *The American Freshman: National Norms for Fall 1987,* Higher Education Research Institute, UCLA, Los Angeles, 1987. Two decades of the CIRP freshman data have been summarized in a special report, *The American Freshman: Twenty Year Trends,* Higher Education Research Institute, UCLA, Los Angeles, 1987.

[4] These data are reported for individual institutions; see Peterson's Guides, *The 1988 College Money Book,* NJ Peterson's Guides Princeton. The author thanks Eric Suber, data base manager of the annual freshman financial aid survey at Peterson's for his assistance in compiling the data reported in this section. William S. Korn, principal programmer for the CIRP, ran the computer analyses of these data.

[5] California Postsecondary Education Commission, *Independent Higher Education in California, 1982-1984,* Commission Report No. 85-33, The Commission, Sacramento, CA, 1985. Tuition data were collected by the Association of Independent Colleges of California (AICCU), Sacramento, California.

[6] Alexander W. Astin and Carolyn J. Inouye, "How Public Policy at the State Level Affects Private Higher Education Institutions,: *The Economics of Education Review*, in press.

[7]Alexander W. Astin et. al., *The Impact of Student Aid Programs on Student Choice*. SISSFAP Study A., Higher Education Research Institute, Los Angeles, 1978.

[8] Some of the most important longitudinal research on college impacts is based on the follow-up studies of students who participated in the CIRP freshman surveys. See, for example, Alexander W. Astin, *Four Critical Years*, San Francisco: Jossey-Bass, 1978; *Preventing Students from Dropping Out*, Jossy-Bass, San Francisco, 1975; *Achieving Educational Excellence*, Jossey-Bass, San Francisco, 1986; and Kenneth C. Green et. al., *The American College Student 1982: National Norms for Students Two-and Four-Years After Entering College*, Higher Education Research Institute, UCLA, Los Angeles, 1983.

[9] Elaine El-Khawas, *Campus Trends, 1987* , American Council on Education, Washington, 1987.

[10] The issue of how just how much aid comes from the Department of Education remains a political issue. Despite their efforts to reduce aid, Pell Grant expenditures increased at about the rate of inflation between 1981/82 and 1985/86. However, the increase included funds for newly enfranchised populations, including students in proprietary schools and part-time students in collegiate institutions who had not been eligible for Pell funds in earlier years. The CIRP data and information from other sources suggest that aid for full-time, "modal" students has declined since 1980, even as new populations have been enfranchised. Unfortunately, Department officials rarely provide tabulations showing participation and dollar trends for similar populations.

Pell Grant Program Changes and Their Effects on Applicant Eligibility 1973-74 to 1988-89*

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Purposes of Paper

Since the beginning of the Pell Grant Program in 1973-74, appropriations provided for grants to applicants have increased nearly every year. But so has the number of applicants, and so too have the college costs that they have faced. The financial need presented by applicants has grown faster than appropriations. As a result, the Pell Grants available to most classes of applicants have lost purchasing power since 1975-76 compared to the college attendance costs they are intended to help finance.

This loss in purchasing power of Pell Grants results directly from faster growth in the financial need of applicants than growth in dollars provided by Congress. Program funding need is the product of application volume and the need presented on each application. That need – the difference between college attendance costs and the resources available to applicants – is multiplied by the combined effects of college attendance costs increasing faster than inflation and the growth in low income Pell applicants, particularly older, independent students. These demands on Pell Program resources are largely determined by economic forces beyond the influence or control of Congress.

One additional factor in the only partially funded growth in need of Pell Grant applicants is under the direct control of Congress and is the focus of this paper. That is the expanded eligibility for Pell Grants for individuals from incomes above the poverty level. Congress has extended Pell Grant eligibility through program changes enacted primarily in the Middle Income Student Assistance Act in 1978 and the Education Amendments of 1986. Thus, in addition to only partially funded growth in external demands on Pell Grant Program resources, Congress has added unfunded demands of its own to make more students more eligible for limited Program funds. Congress, through deliberate

* This paper was later published under the same title, with extensive appendices of data. Copies are available from ACT. Please refer to ACT Student Financial Aid Research Report 88-1.

action, has shifted resources for increases in the maximum grant available to the lowest income Pell Grant applicants to others from higher income levels.

This loss of purchasing power for the foundation of all student aid programs has implications for the equity of higher educational opportunity goals of need-based student aid. Lowest income applicants — those judged unable to contribute toward the financing of their college costs — must turn to other forms of financial aid such as loans or employment to pay college expenses. Each alternative imposes current or future obligations on the applicant that grants such as Pell do not. To some degree, there are enrollment consequences from this shift.

The Pell Grant Program, therefore, remains the first and most important aid program for low income financial aid applicants.

Pell Grant Program Background

The federal Basic Educational Opportunity Grant Program was designed by Congress in the early 1970s to be the floor of the eligible student's financial aid package to help defray the costs of postsecondary education[1]. Today the Program — now called the Pell Grant Program — remains largely true to that concept of its original mission. However, changes to the Program have been made by Congress during subsequent legislative reauthorizations[2]. These changes have altered both student eligibility for the Grants as well as the purchasing power of the Grants relative to the college costs applicants face. The eligibility for Pell Grant aid of some groups of students has been increased by these changes, while for others eligibility has been reduced or eliminated.

This paper examines the effect of changes made in the design components of the Pell Grant Program on applicant eligibility since the Program's first year of operation in 1973-74. These changes were made primarily in the 1978 Middle Income Student Assistance Act and the 1986 Education Amendments to the Higher Education Act of 1965. The four Program design components examined in this paper are: classes of eligible applicants, the formulas used to determine family contribution, college costs allowed, and the payment schedule.

The net effect of these Program design components on applicants is illustrated by calculating full-time Pell Grant eligibility for four de-

pendent and four independent cases that remain constant over time. That is, income is expressed in constant dollars and family circumstances are fixed for the period from 1973-74 through 1988-89. Grants are calculated for these eight cases under three enrollment situations: an average cost public two year college where the student lives off campus, and average cost public and private four year colleges where the student lives on campus.

The net effect of Program design changes on Grant applicant eligibility over time may be measured in many ways: 1) the expected family contribution (SEI/SAI), 2) the expected family contribution effort (SAI as a percent of income), 3) the amount of the Pell Grant for which the applicant is eligible, 4) the proportion of college budgets covered by the Pell Grant, 5) the amount and proportion of need met by the Pell Grant plus the expected family contribution, 6) the amount and proportion of unmet need remaining after the family contribution and Pell Grant are deducted from these college attendance costs, and 7) by the amount of unmet need expressed as a percent of family income. This paper illustrates Pell Grant purchasing power as a proportion of actual college attendance costs.

The federal Higher Education Act of 1965 inaugurated the federal commitment to needs-tested grant aid for college students with the Educational Opportunity Grant Program (EOG). This Program was modified and renamed the Supplemental Educational Opportunity Grant Program (SEOG) with the 1972 Amendments to the Higher Education Act. More importantly, Congress at that time created the Basic Educational Opportunity Grant Program (BEOG) — which, since 1980, has been called the Pell Grant Program — with a specific focus on grants directed to low income populations. The original Higher Education Act has been modified substantially and repeatedly since 1965, most notably regarding the Pell Grant Program in 1972, 1978 and 1986.

The focus of BEOG/Pell was the provision of grants to students from lower family incomes based on the demonstrated financial need of applicants to pay college attendance costs. Periodically, Congress has extended Pell Grant eligibility to additional students by changing Program design components. These extensions have primarily benefited applicants with discretionary income beyond the amount protected by family size offsets within the formula.

Table 1 summarizes the scale of the Program since its inception. Between 1973-75 and 1986-87, approximately 57 million applications

were submitted to the Pell Grant Program for assistance. Thirty million Grants from these applications have been made, at a total cost of $28 billion. Currently, about one out of every five undergraduate students enrolled in public and private colleges in the U. S. is receiving a Pell Grant to help finance their college attendance costs.

Note in Table 1 the changing proportion of official (unduplicated) applications that eventually become Pell Grant recipients. Changes in this proportion reflect both changing applicant characteristics and changes in the treatment of their applications under changing laws and rules governing the Pell Grant Program.

Table 1
Pell Grant Program Summary Data
1973-74 to 1986-87

Award Year	Official Applicants	Pell Grant Recipients	% Recip	Dollars Paid (000)	Mean Grant
73-74	512,866	176,000	34.3%	$ 47,054	$ 267
74-75	1,304,877	553,653	42.4	349,544	631
75-76	2,339,337	1,220,744	52.2	912,115	747
76-77	3,590,379	1,948,329	54.3	1,451,126	745
77-78	3,844,047	2,028,208	52.8	1,511,916	745
78-79	3,885,393	1,914,673	49.3	1,540,788	805
79-80	4,186,716	2,717,913	64.9	2,358,689	868
80-81	4,825,420	2,845,870	59.0	2,388,750	839
81-82	4,945,760	2,784,463	57.5	2,297,421	825
82-83	5,118,558	2,612,571	51.0	2,417,811	925
83-84	5,453,548	2,848,587	52.2	2,792,117	980
84-85	5,514,029	2,833,345	51.4	3,035,191	1,071
85-86	5,627,131	2,910,174	51.7	3,572,006	1,227
86-87	5,834,277	2,763,408	47.9	3,398,795	1,230
Total	56,982,338	30,157,938	52.9	$28,073,323	$931

Source: U. S. Department of Education

EFFECTS OF CHANGES ON PELL GRANT ELIGIBILITY

To illustrate the effects of changes in the four areas of Program design on applicant eligibility, four dependent and four independent cases that are representative of applicant situations have been selected. Their respective Pell Grants were calculated at off-campus average cost public two-year, on-campus public four-year and on-campus private four-year colleges for each year 1973-74 through 1988-89. Note that for each case, applicant circumstances do not change. Therefore,

changes in Pell Grant eligibility over time are the result of changes in Program design and changes in the college costs that Pell Grants are designed to address.

Dependent Cases

The four dependent cases selected for testing are the following:

- Case D1: Pell applicant from a family of four, one wage earner, one in college, family income at poverty level, and no assessable assets.
- Case D2: Pell applicant from a family of four, one wage earner, one in college, family income at the Bureau of Labor Statistics lower budget level for a family of four, and no assessable assets.
- Case D3: Pell applicant from a family of four, one wage earner, one in college, family income at the BLS intermediate budget level, and no assessable assets.
- Case D4: Pell applicant from a family of four, one wage earner, two in college, family income at the BLS intermediate budget level, and no assessable assets.

The Pell Grants received by dependent applicants in the above cases are presented in Table 2.

Table 2
Pell Grant Eligibility for Dependent Applicants
1973-74 to 1988-89

	Case D1:			Case D2:			Case D3:			Case D4:		
Academic	Poverty Income			BLS Lower Budget			BLS Intermediate			BLS Intermediate		
Award Yr	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4
1973-74	$ 452	$ 452	$ 452	$ 263	$ 263	$ 263	$ 0	$ 0	$ 0	$ 102	$ 102	$ 102
1974-75	888	988	1050	578	578	578	0	0	0	188	188	188
1975-76	862	1038	1400	776	776	776	0	0	0	0	0	0
1976-77	888	1112	1400	776	776	776	0	0	0	0	0	0
1977-78	912	1162	1400	726	726	726	0	0	0	0	0	0
1978-79	912	1212	1600	912	956	956	0	0	0	214	214	214
1979-80	938	1288	1800	928	1288	1375	776	776	776	912	1076	1076
1980-81	938	1412	1800	888	1326	1326	676	676	676	888	976	976
1981-82	882	1482	1596	882	1096	1096	346	346	346	746	746	746
1982-83	988	1604	1604	983	983	983	0	0	0	293	293	293
1983-84	1013	1705	1725	1013	1125	1125	0	0	0	425	425	425
1984-85	1275	1850	1850	1150	1150	1150	0	0	0	450	450	450
1985-86	1590	2050	2050	2050	1350	1350	0	0	0	450	450	450
1986-87	1590	2050	2050	921	1130	1130	0	0	0	0	0	0
1987-88	1590	2050	2050	1250	1250	1250	0	0	0	350	350	350
1988-89	1770	2190	2200	1550	1550	1550	0	0	0	1050	1050	1050

Source: ACT

Figures 1 through 4 on the following pages illustrate the proportion of actual college attendance costs covered by the Pell Grants available to applicants in the four cases at each of the three types of colleges the applicant might attend. The actual college attendance costs used in this study are based on national average tuition and fee and room and board data collected by the U.S. Department of Education, and other direct and indirect college attendance cost data collected through surveys by the California Student Aid Commission. (A future ACT Financial Aid Research Report will provide more of this data for the purpose of constructing college attendance price indices.)

Figure 1 represents the purchasing power of the Pell Grant available to a dependent applicant from poverty level family income. After the first two years of start up of the original Basic Educational Opportunity Grant Program in 1973-74 and 1974-75, a fully funded Pell payment schedule was achieved in 1975-76 (although only freshmen, sophomores and juniors were eligible for Grants that year). Since 1975-76, the purchasing power of the Grant compared to actual college attendance costs has decreased. At a public four-year college, Grants that covered 36 percent of college costs in 1975-76 dropped to about 31 percent by 1988-89. The available Grant went from 31 percent of college costs at a public two-year college in 1975-76 to about 25 percent by 1988-89. If the student had faced attendance costs at a private four-year college, the purchasing power of the Grant would have dropped from 30 percent to 17 percent during this time period.

Figure 1: Percent of College Costs Covered by Pell Grant For a Dependent Student From Poverty Level Family Income at Three Type of Colleges 1973-74 to 1988-80

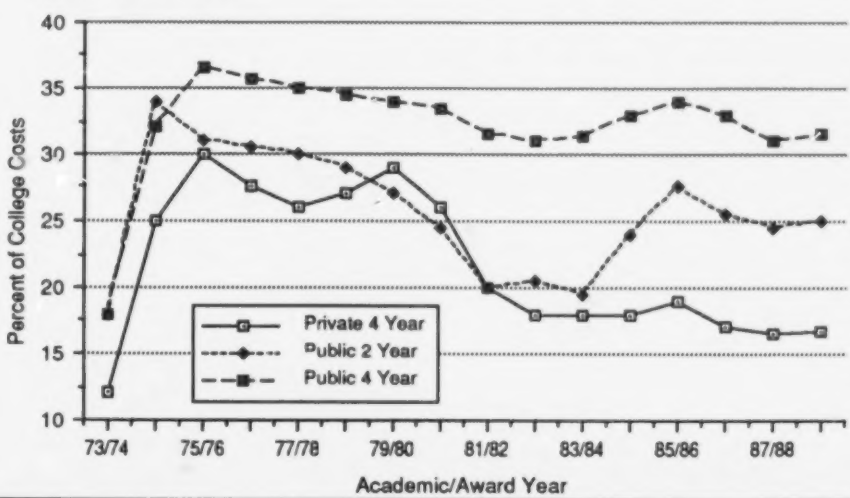


Figure 2 shows the purchasing power of the Pell Grant for a student from a Bureau of Labor Statistics (BLS) lower level family income level. Here again the available Grant has lost purchasing power relative to college costs. The proportion of college budgets covered by Pell dropped from about 28 percent to 22 percent in public two-year colleges between 1975-76 and 1988-89, from 27 percent to 22 percent public four-year, and from 17 percent to 12 percent in private four-year colleges.

Figure 2: Percent of College Costs Covered by Pell Grant for a Dependent Student from BLS Lower Level Family Income at Three Types of Colleges 1973-74 to 1988-89

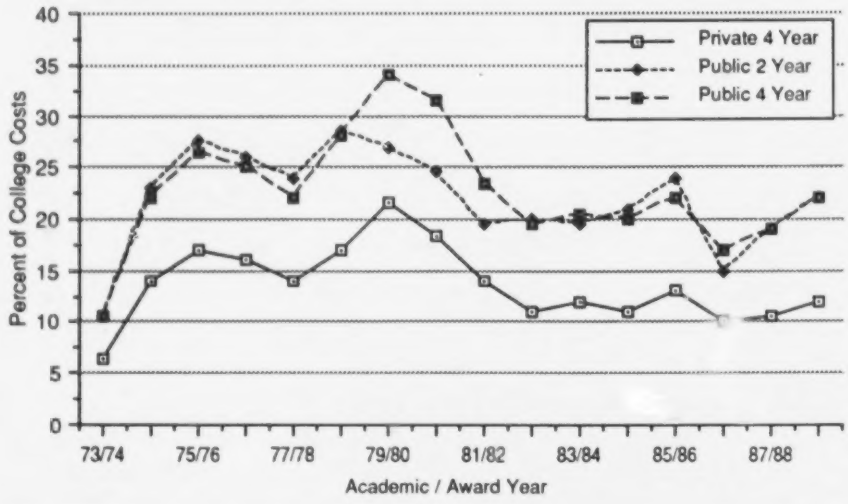
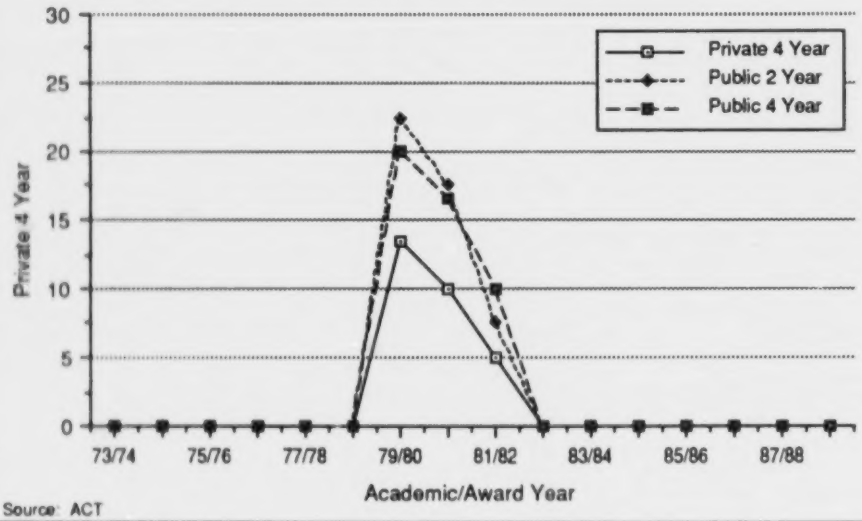


Figure 3 shows the purchasing power of the Pell Grant for a student from a BLS intermediate budget level family income with one family member enrolled in college. Here the applicant would have been eligible for a Pell Grant only during the three year period of the Middle Income Student Assistance Act, beginning with 1979-80. For this relatively brief period, the applicant qualified for a Pell Grant at all three institutional types, for amounts that covered as much as 22 percent of actual college attendance costs. Since 1982-83, however, applicants for Grant assistance have not qualified for aid.

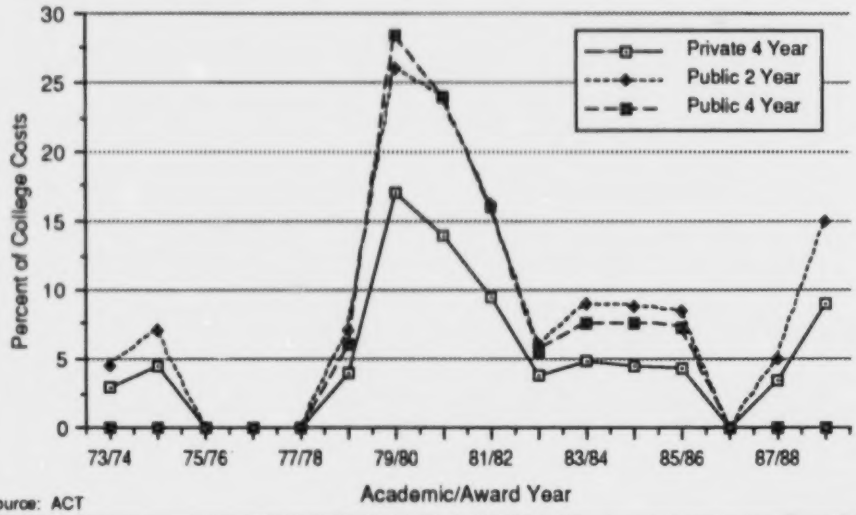
Figure 4 shows the purchasing power of a Pell Grant for an applicant from a BLS intermediate family income with two children from the same family enrolled in college at the same time. In this case, eligibility was for Grant assistance that fluctuated substantially over the life of the Program. Eligibility peaked during the MISAA years of 1978-79 through 1980-81, and will rise again in 1988-89.

Figure 3: Percent of College Costs Covered by Pell Grant for a dependent Student from BLS Intermediate Level Family Income at Three Types of Colleges 1973-74 to 1988-89



Source: ACT

Figure 4: Percent of College Costs covered by Pell Grant for a Dependent Student from BLS Intermediate Budget Family Income, Two in College, at Three Types of Colleges 1973-74 to 1988-89



Source: ACT

Independent Cases

The four independent cases selected for testing are the following:

- Case I1: Pell applicant who is single, with income at 50 percent of the poverty level, no assets.
- Case I2: Pell applicant who is single, with income at 100 percent of the poverty level, no assets.
- Case I3: Pell applicant who is single, with one dependent, with unearned income at 100 percent of poverty level, no assets.
- Case I4: Pell applicant who is married, with income at 150 percent of poverty level, one in college and no assets.

When Pell applicant eligibility is calculated for these four cases at the three types of colleges used in the previous dependent case examination, the applicants would be eligible for the following Grant amounts.

Table 3
Pell Grant Eligibility for Independent Applicants
1973-74 to 1988-89

Academic Award Yr	Case I1: Single, Income at 50% of Poverty			Case I2: Single, Income at 100% of Poverty			Case I3: Single, Dependent Inc at 100% Poverty			Case I4: Married, Income 150% of Poverty		
	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4	Pub 2	Pub 4	Priv4
1973-74	$ 363	$ 363	$ 363	$ 70	$ 70	$ 703	$ 443	$ 443	$ 443	$ 217	$ 217	$ 217
1974-75	776	876	882	162	162	162	888	988	1050	578	578	578
1975-76	862	1038	1176	226	226	226	862	1038	1400	776	776	776
1976-77	888	1112	1126	0	0	0	888	1112	1400	676	676	676
1977-78	912	1076	1076	0	0	0	912	1162	1400	626	626	626
1978-79	912	1212	1312	214	214	214	912	1212	1580	758	758	758
1979-80	938	1288	1800	938	1288	1800	938	1288	1800	826	826	826
1980-81	888	1362	1750	888	1362	1740	888	1326	1750	888	1226	1226
1981-82	882	1482	1670	882	1446	1446	882	1432	1596	882	946	946
1982-83	988	1674	1674	988	1465	1465	988	1651	1651	858	858	858
1983-84	1013	1800	1800	1013	1575	1575	1013	1675	1675	975	975	975
1984-85	1275	1900	1900	1275	1750	1750	1275	1750	1750	1050	1050	1050
1985-86	1590	2100	2100	1590	1950	1950	1590	1950	1950	1150	1150	1150
1986-87	1590	2100	2100	1590	1930	1930	1590	1950	1950	565	565	565
1987-88	1590	2100	2100	1590	1850	1850	1590	1950	1950	1050	1050	1050
1988-89	1770	2190	2200	1770	2190	2200	1770	2190	2200	0	0	0

Source: ACT

Table 3 shows gains and losses in eligibility for independent Pell applicants over the life of the Program. Single independents with incomes at the federal poverty level have gained eligibility, especially since 1979-80. On the other hand, married independent Pell applicants with incomes at 150 percent of the poverty level where only one member is in college will lose all of their Pell eligibility in 1988-89.

The charts on the following pages illustrate changing Pell applicant eligibility, and met and unmet need for the four cases since 1973-74.

ELIGIBILITY DESIGN COMPONENTS OF THE PELL GRANT PROGRAM

The original federal objective of the Pell Grant Program was to assist low income aid applicants to finance their higher educational attendance costs through the provision of a grant. The federal policy has been clear and consistent that Pell alone would not cover all college attendance costs — only as much as about half of the attendance costs recognized in the Program — but Pell Grants would be the first source of aid in financing college costs. With this Grant as the floor of the applicant's aid package, other financial aid from other federal, state and institutional sources would be used to complete the financing of the student's direct and indirect college attendance costs.

To fulfill the above role, the Pell Grant Program consists of Program design elements that determine applicant eligibility for the Grant. These design elements are: 1) specified classes of eligible applicants, 2) Student Aid Index formula, 3) allowable college costs, and 4) the payment schedule. Each of these is described below.

Classes of Eligible Applicants

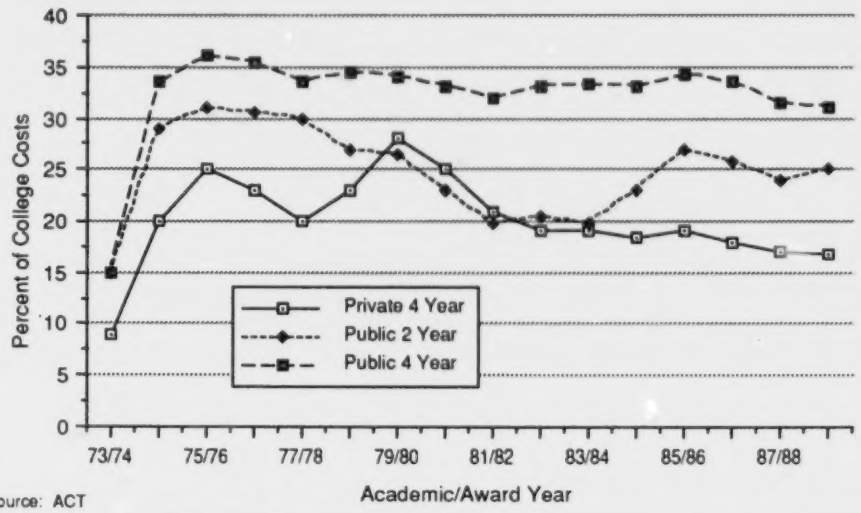
Since the beginning of the Program, applicants for aid have been required to meet specified criteria in order to be eligible for consideration of a Pell Grant. During the first year of the Program in 1973-74, this list consisted of just three eligibility criteria: the applicant had to have begun studies after July 1, 1973 (thereby limiting eligibility to freshmen), be enrolled full-time and at an eligible institution. Gradually, this list has been expanded to address additional federal concerns and now includes over a dozen applicant eligibility criteria.

Table 4 on the following page summarizes the classes of Pell applicants that are eligible for consideration. In many respects, eligibility has been greatly expanded since the Program's first year: freshmen eligibility in 1973-74 was expanded to include all undergraduates by 1976-77, and full-time enrollment was replaced by half-time enrollment in 1975-76; this, in turn, could be replaced by less than half-time enrollment as early as 1989-90.

Table 4
Classes of Eligible Applicants

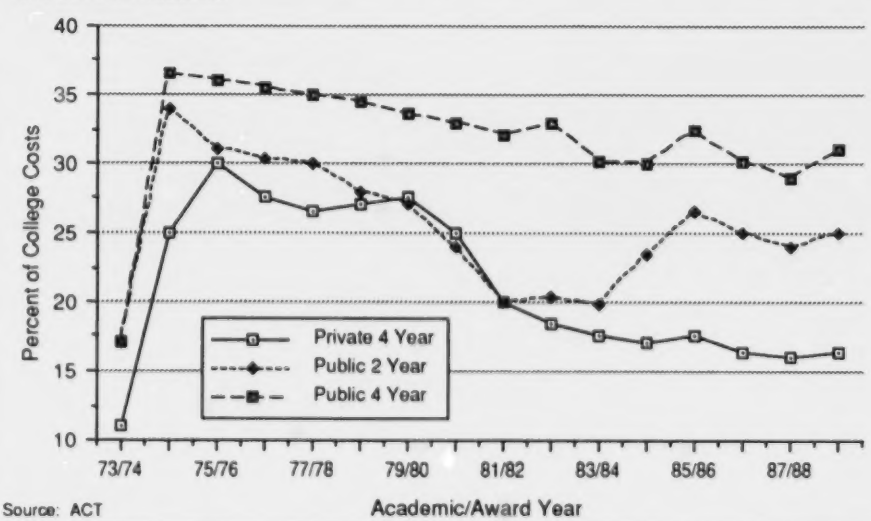
Academic/ Award Year	Year in School	Enrollment Status: Limit	Full-Time	Half-Time	Elig School	Elig Program	Citizen Elig Non-Cit	Satisfactory Academic Progress	No Default On Student Loan	Not Owe Refund on Pell/SEOG	Registered With Selective Service
1973-74	FR	After 7/1/73	Y	N	Y						
1974-75	FR+SO	After 4/1/73	Y	N	Y	Y					
1975-76	FR+SO+JR	After 4/1/73	Y	Y	Y	Y	Y				
1976-77	Under-grad	4 years	Y	Y	Y	Y	Y				
1977-78	"	4 years	Y	Y	Y	Y	Y				
1978-79	"	4 years	Y	Y	Y	Y	Y				
1979-80	"	4 years	Y	Y	Y	Y	Y				
1980-81	"	4 years	Y	Y	Y	Y	Y				
1981-82	"	none	Y	Y	Y	Y	Y				
1982-83	"	none	Y	Y	Y	Y	Y				
1983-84	"	none	Y	Y	Y	Y	Y	Y			
1984-85	"	none	Y	Y	Y	Y	Y	Y	Y	Y	Y
1985-86	"	none	Y	Y	Y	Y	Y	Y	Y	Y	Y
1986-87	"	none	Y	Y	Y	Y	Y	Y	Y	Y	Y
1987-88	"	none	Y	Y	Y	Y	Y	Y	Y	Y	Y
1988-89	"	5 years	Y	Y							

Figure 5: Percent of College Costs Covered by Pell Grant for a Single Independent Student with Income at 50% of Poverty Level, at Three Types of Colleges 1973-74 to 1988-89



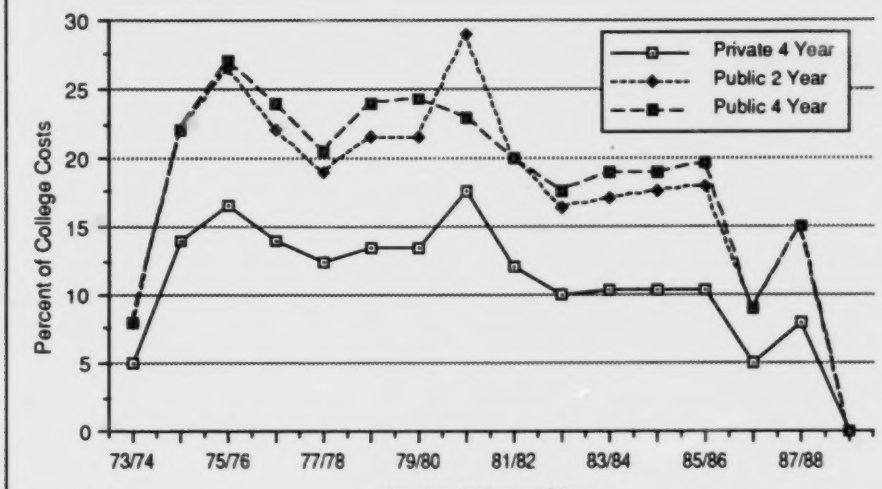
Source: ACT

Figure 6: Percent of College Costs Covered by Pell Grant for an Unmarried Independent Student with a Child, Income at 100% of Poverty Level, at Three Types of Colleges 1973-74 to 1988-89



Source: ACT

Figure 7: Percent of College Costs Covered by Pell Grant for an Independent Married Student, with Income at 150 Percent of Poverty Level, at Three Types of Colleges 1973-74 to 1988-89



Source: ACT

In other respects, applicant eligibility has been restricted in ways that address specific Congressional concerns. For example, in 1983-84 Congress implemented the requirement that students make satisfactory academic progress towards completion of their programs of study while receiving Pell Grants. Congress has also established applicant eligibility standards that eliminate applicant eligibility for those who have defaulted on a federal student loan, who owe refunds on prior Pell or SEOG Grants, or for males who have not registered with the Selective Service. As Congress chooses to address other issues in the public policy arena, additional changes can be expected in applicant eligibility criteria in the future.

Student Aid Index Formula

Pell applicant eligibility is carefully examined through formulas adopted to assess applicant and family ability to finance college attendance costs from their own resources. At this stage, formulas requiring detailed family information reflect Congressional judgments concerning what families need to provide for themselves, and, of the remainder, what is to be expected from the Pell applicant (and his or her family) toward financing college attendance costs. The result is a

financial expectation from family resources originally called Student Eligibility Index (SEI), and in 1982-83 renamed the Student Aid Index (SAI). While this number appears as a pure index value, the Pell Program derives this as a dollar amount. Separate formulas are used for dependent and independent Pell applicants. The phases of this determination are outlined briefly below.

Dependent/Independent Student Status:
Table 5 summarizes the changing definitions of dependency used in the Pell Grant Program since its inception. Basically, Congress has looked at three criteria to determine student status: Has the applicant been claimed as an exemption on the parent's federal tax return? Has the applicant received more than a specified sum of cash or in kind from parents? Has the applicant lived in the home of the parent? Changes were made in these criteria in 1979-80 (MISAA), and further changes contained in the 1986 Amendments became effective in 1987-88.

Table 5
Independent Status Definition in Pell Grant Program
1973-74 to 1988-89

Academic/ Award Year	Exemption claimed on Parent's Tax Return	Parental Contribution Limit	Time Limit in Parent's Home
1974-75	Not claimed in prior/ current/following year	$600, in cash or in kind, prior/current, following year	2 consecutive weeks in prior/current following year
1975-76	"	"	"
1976-77	"	"	"
1977-78	"	"	"
1978-79	"	"	"
1979-80	"	$750	6 weeks
1980-81	"	"	"
1981-82	"	$1000	"
1982-83	"	$750	"
1983-84	"	"	"
1984-85	"	"	"
1985-86	"	"	"
1986-87	"	"	"
1987-88	"	Was at least 24. Was a veteran. Orphan or ward of the court. Own dependents. More than $4000 in resources. Married/ graduate or professional student.	
1988-89	"		

Source: U.S. Department of Education.

Dependent SAI Formula:
The Pell formula's analysis of the dependent applicant and his/her

family's ability to finance college attendance costs follows commonly used methods of ability to pay models, of which income tax models are a familiar example. However, assets also enter into this analysis, as do other factors relevant to college attendance. The general dependent Pell model is clearly spelled out in Pell work sheets:

Family income:	Parent's income + Married couple working deduction + Parent's social security benefits + Parent's AFDC + Parent's other income and benefits + 1/2 Student's Veteran's benefits – Parent's federal income taxes – Family size offset – Employment expense offset – Elementary/secondary tuition = Parent's discretionary income x Assessment rates = Contribution from family income
Parent's assets:	Net value of parents' assets – Asset reserve + Parents' other net assets – Asset reserve x Assessment rate = Contribution from parents' assets
Parental contribution:	Contribution from family income + Contribution from parents' assets x Multiple student adjustment = Total parental contribution
Student's assets	Net value of assets x Assessment rate = Contribution from student assets
Student's income	Student's taxable income – Federal income taxes paid + Student's untaxed income and benefits – Dependent student offset x Assessment rate = Contribution from student income
Student Aid Index	**Total parental contribution** **+ Contribution from student assets** **+ Contribution from student income** **= Student Aid Index**

For the purpose of the analysis of effects of changing Pell Grant Program design attributes on applicant eligibility, parent and student variable inputs are held constant in this study. Therefore, changes in observed applicant eligibility were the result of changes in either Program design components (here SAI formula components) or the college attendance costs faced by the Pell applicant.

Table 6 summarizes the major changes in the Pell SAI formula that occurred between 1973-74 and 1988-89. These include the change in the family size offset calculation in 1979-80 and the freezing of that allowance in 1981-82, and the inclusion of the state tax allowance and the change in the multiple student offset in 1988-89.

However, the greatest change in the dependent Pell SAI formula has been in the rates at which discretionary parental income has been assessed to finance college costs. During the first six years of Pell, this rate expected parents to contribute 20 percent of the first $5000 and 30 percent of all discretionary income above $5000 toward the college costs of their children. In 1979-80, as a result of the Middle Income Student Assistance Act (MISAA), this rate was dropped to 10.5 percent for all discretionary income. Three years later, progressivity was partially restored to these rates. The assessment rates that became effective in 1982-83 were 11 percent on the first $5000 of discretionary parental income, 13 percent on the next $5000, $18 percent on the third $5000, and 25 percent on all discretionary income above $15,000. These rates are well below the rates that existed before MISAA, but above the MISAA-era rates.

Independent SAI formula:

While the structure of the Pell dependent formula has been relatively stable over the life of the Program, the structure of the independent formula has not. This independent formula instability is a result of continuing attempts by Congress to design a method of fairly determining an expectation of contribution from independent applicant resources that accommodates a wide variety of independent circumstances. These circumstances include single with and without dependents, married with and without dependents and number enrolled in college one or more than one, and presence or absence of business or farm assets. The continuing attempts to address this issue through redefinition of independent status and changes to assessment rates against discretionary income reflect the difficulties and unresolved problems independent student status presents to Congress.

The simplest independent applicant case is the single student. The 1987-88 structure of the Pell SAI formula for this case is the following:

Table 6
Pell Grant Formula Major Features Changed Since Inception

Academic Award Year	Taxes Allowed	Family Size Offset 1	2	3	4	5	6	7	Each Addl	Discretionary Income Assessment Rate: Dependent	Independent: Single	Married With Spouse	With Dep Other Than Spouse	Multiple Student Offset 1	2	3	4
1973-74	FED	700	2800	3350	4300	5050	5700	6300	700	$1-4999:20% $5000+:$1000+30%	75%	50%	40%	100%	70%	50%	40%
1974-75	"	850	3050	3650	4650	5500	6200	6900	700	"	"	"	"	"	"	"	"
1975-76	"	950	3400	4100	5200	6150	6950	7700	800*	"	"	"	"	"	"	"	"
1976-77	"	1000	3650	4400	5600	6600	7500	8300	850	"	"	"	"	"	"	"	"
1977-78	"	1050	3850	4650	5900	6950	7900	8750	900*	"	"	"	"	"	"	"	"
1978-79	"	1100	4100	4950	6300	7400	8400	9300	950*	"	"	"	"	"	"	"	"
1979-80	"	3450	4450	5400	6850	8050	9150	10100	1000*	10.5%	"	"	"	"	"	"	"
1980-81	"	3850	5000	6050	7700	9050	10250	11350	1150*	"	"	25%	25%	"	"	"	"
1981-82	"	3850	5000	6050	7700	9050	10250	11350	1150*	"	"	"	"	"	"	"	"
1982-83	"	4200	5450	6600	8400	9900	11200	12450	1250	$1-5000:11% $5-10k:$550+13%	"	"	"	"	"	"	"
1983-84	"	4500	5800	7100	9000	10600	12000	13400	1400	$10k-15k:$1200+18% $15k+:$2100+25%	"	"	"	"	"	"	"
1984-85	"	4700	6000	7300	9300	11000	12400	14000	1600	"	"	"	"	"	"	"	"
1985-86	"	4900	6200	7500	9300	11000	12400	14000	1600	"	"	"	"	"	"	"	"
1986-87	"	5100	6400	7800	9900	11800	13300	14900	1600	"	"	"	"	"	"	"	"
1987-88	"	5200	6500	8000	10100	12100	13600	15300	1700	"	"	"	"	"	"	"	"
1988-89	FED+STATE	5300	6700	8100	10400	12300	13800	15600	1800	"	"	75%	$1-5000:11% $5-10k:$550+13% $10k-15k:$1200+18% $15k+:$2100+25%	100%	50%	33%	25%

*Approximate.

Student income:	Income + Social Security benefits + Other untaxed income + 1/2 Veteran's educational benefits - Federal Income taxes - Family size offset - Unusual medical expenses x Assessment rate = Contribution from student income
Student assets:	Net assets x Assessment rate = Contribution from student assets
Student Aid Index	Contribution from student income + Contribution from student assets = Student Aid Index (SAI)

For family sizes greater than one, the Pell independent SAI formula adds steps, such as the multiple student adjustment, and uses assessment rates against income and assets that are lower than for a single student. The general structure of the preceding formula, however, remains similar.

Of particular importance to single independent applicants are the family size offset and assessment rates against discretionary income. Until 1979-80, the family size offset for a family size of one was less than half the federal poverty level. This meant that many single Pell applicants living below the poverty line were unable to qualify for maximum Pell Grants. When the family size offset for a single independent student was increased to the poverty level in 1979-80, SAIs for these students dropped sharply and their resulting Pell Grant eligibility increased.

Also, of particular importance to independent Pell Grant applicants with a family of size greater than one have been the shifts in assessment rates against discretionary independent family income. Married independent discretionary family income was assessed at 50 percent from 1973-74 through 1980-81, when it was dropped to 25 percent. For 1988-89, this will be increased to 75 percent, making many previously eligible applicants no longer eligible for Pell Grant aid.

For independent families with dependents other than a spouse, the assessment rate has been steadily lowered, from 40 percent for the first seven years of the Pell Grant Program, to 25 percent for 1980-81

through 1987-88, to a progressive rate beginning at 11 percent for 1988-89. These changes, of course, greatly expand applicant eligibility for independents from these circumstances.

Allowable College Costs

The Pell Grant Program allows for the consideration of certain direct and indirect college attendance costs, namely tuition and fees, room and board or an alternative living allowance, and books, supplies and miscellaneous. The allowance for these components will be discussed in more detail shortly.

The Pell Program does not allow for opportunity costs of college attendance. Opportunity costs are frequently recognized in the Pell SAI formula as being present. For example, negative numbers may be calculated when determining expected contribution from parental income, residential assets, other net assets, and at other places in the dependent SAI formula. However, negative numbers are usually increased to zero when they appear in the formula, thus effectively eliminating the consideration of opportunity costs of college attendance for those from lowest income families.

The direct and indirect college attendance costs that Pell does recognize are discussed separately below.

Tuition and fees:
Pell considers the actual tuition and fees faced by the applicant for aid to attend college. This is simple and direct.

Books and miscellaneous allowance:
The Pell budget allows $400 for books and miscellaneous expenses of college attendance. The same number has been used for all Pell applicant college budgets since the inception of the Program in 1973-74 through 1987-88.

Living allowance:
Pell college budgets between 1973-74 and 1987-88 allowed for three living arrangements: home, off campus, and on campus. The campus room and board rate was included in the college budget if the student lived on campus. An allowance for up to $1600 was made if the student lived off campus, but not at home. An allowance of $1100 was made for the student who lived at home.

Beginning in 1988-89, the living allowance and the books and supplies allowance will be combined into a single maintenance allowance. This will be $2200 for all applicants living on or off campus, and $1600 for those living at home.

Several aspects of this allowance are relevant to the consideration of Pell Grant coverage of actual college attendance costs. First, an allowance for maintenance of the student is also included in the family size offset against family income. Thus, the Pell Grant living allowance may be viewed as an allowance for the marginal living costs associated with college attendance. For the student living at home, the $1100 allowance may properly be viewed as addressing commuting costs and food away from home.

This sum, however, has remained constant at $1100 over the sixteen year history of the Program, from 1973-74 through 1987-88, when other prices in the economy (CPI) have increased by 166 percent. For the student living off campus, this allowance was increased from $1100 to $1600 in 1984-85, a 45 percent increase. Table 7 on the following page summarizes the major dimensions of the allowable cost components of the Pell college budget since 1973-74.

The difference between the Pell allowable college costs and the actual college attendance costs faced by students in the three college/housing settings used in this study is examined in more detail in Table 8. The estimated average college attendance costs actually faced by students includes the direct costs of tuition and fees and books and supplies. The indirect costs included are average reported costs for food and housing, transportation, and other personal and miscellaneous living costs for nine months. The Pell allowable college costs include not only tuition and fees, living allowance and books and miscellaneous allowances, but also nine months of marginal maintenance allowance in the family unit.

The results of this comparison show that, in all cases, Pell allowable college costs have not increased as fast as have the actual college attendance costs faced by students. For students living in campus dormitories at a public four-year college, Pell allowances that covered 96 percent of actual costs in 1973-74 covered 86 percent by 1987-88, and will probably cover about 59 percent in 1988-89. The decline was somewhat less for a student at a private four-year college — from 98 percent to 92 percent between 1973-74 and 1987-88, to about 77 percent in 1988-89. However, for a student living off campus at a public two-year college, the Pell allowance that covered 81 percent of actual

Table 7

Pell Grant Allowable Costs of Attendance

	Tuition & Fees	Books, Supplies & Miscellaneous	Living Allowance			Child Care	Handicapped Expense
			On-Campus	Off-Campus	Home		
1973-74	Actual or Average	$400	Room & Board Actual/Average	$1100	$1100		
1974-75	"	"	"	"	"		
1975-76	"	"	"	"	"		
1976-77	"	"	"	"	"		
1977-78	"	"	"	"	"		
1978-79	"	"	"	"	"		
1979-80	"	"	"	"	"		
1980-81	"	"	"	"	"		
1981-82	"	"	"	"	"		
1982-83	"	"	"	"	"		
1983-84	"	"	"	"	"		
1984-85	"	"	"	$1100-$1600	"		
1985-86	"	"	"	"	"		
1986-87	"	"	"	"	"		
1987-88	"	"	"	"	"	Up to	
1988-89			$2,200	$2,200	$1,600	$1,000	Actual

Source: Pell Grant Payment Schedule

TABLE A: COMPARISON OF ESTIMATED ACTUAL AVERAGE COLLEGE ATTENDANCE COSTS AND PELL ALLOWABLE COLLEGE COSTS, 1973-74 TO 1987-88

	Academic/Award Year														
	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87	87-88
PUBLIC 2 YEAR COLLEGE - LIVING OFF CAMPUS															
Estimated Average Actual College Attendance Costs:															
Tuition & Fees	$274	$277	$245	$283	$306	$327	$355	$385	$432	$473	$520	$584	$620	$650	$68
Books & Supplies	$165	$173	$181	$190	$200	$210	$227	$272	$270	$280	$312	$336	$360	$384	$38
Food & Housing	$1,673	$1,755	$1,841	$1,931	$2,025	$2,124	$2,295	$2,547	$2,925	$3,150	$3,330	$3,546	$3,771	$4,014	$4,14
Transportation	$296	$311	$327	$343	$360	$378	$405	$630	$540	$585	$585	$630	$675	$684	$57
Personal/Misc.	$444	$466	$490	$514	$540	$567	$612	$675	$855	$990	$990	$1,116	$1,134	$1,230	$1,33
Total Actual Costs	$2,852	$2,982	$3,084	$3,261	$3,431	$3,606	$3,894	$4,509	$5,022	$5,486	$5,745	$6,212	$6,560	$6,962	$7,11
Pell Allowable College Costs:															
Tuition & Fees	$274	$277	$245	$283	$306	$327	$355	$385	$432	$473	$520	$584	$620	$650	$68
Books & Misc	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$40
Living Allowance	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,100	$1,600	$1,600	$1,600	$1,60
Maintenance Allow.	$525	$525	$600	$638	$675	$713	$750	$863	$863	$938	$1,050	$1,200	$1,200	$1,200	$1,27
Allow. Pell Budget	$2,299	$2,302	$2,345	$2,421	$2,481	$2,540	$2,605	$2,748	$2,795	$2,911	$3,070	$3,784	$3,020	$3,050	$3,95
Difference	-$553	-$680	-$739	-$840	-$950	-$1,066	-$1,289	-$1,761	-$2,227	-$2,575	-$2,667	-$2,428	-$2,740	-$3,112	-$3,15
Pell % of Actual	80.6%	77.2%	76.0%	74.2%	72.3%	70.4%	66.9%	60.9%	55.7%	53.1%	53.6%	60.9%	58.2%	55.3%	55.6
PUBLIC 4 YEAR COLLEGE - LIVING ON CAMPUS															
Estimated Average Actual College Attendance Costs:															
Tuition & Fees	$463	$448	$469	$564	$596	$622	$662	$721	$813	$936	$1,052	$1,117	$1,200	$1,270	$1,34
Books & Supplies	$141	$170	$163	$189	$196	$202	$211	$225	$250	$263	$300	$313	$329	$358	$37
Room & Board	$1,043	$1,110	$1,188	$1,264	$1,336	$1,405	$1,536	$1,699	$1,888	$2,096	$2,233	$2,401	$2,550	$2,670	$2,79
Other Costs	$872	$968	$1,057	$1,118	$1,189	$1,280	$1,426	$1,619	$1,785	$1,891	$1,948	$2,016	$2,088	$2,120	$2,21
Total Actual Costs	$2,519	$2,696	$2,877	$3,135	$3,317	$3,509	$3,835	$4,264	$4,736	$5,186	$5,533	$5,847	$6,167	$6,418	$6,73
Pell Allowable College Costs:															
Tuition & Fees	$463	$448	$469	$564	$596	$622	$662	$721	$813	$936	$1,052	$1,117	$1,200	$1,270	$1,34
Books & Misc.	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$40
Room & Board	$1,043	$1,110	$1,188	$1,264	$1,336	$1,405	$1,536	$1,699	$1,888	$2,096	$2,233	$2,401	$2,550	$2,670	$2,79
Maintenance Allow.	$525	$525	$600	$638	$675	$713	$750	$863	$863	$938	$1,050	$1,200	$1,200	$1,200	$1,27
Allow. Pell Budget	$2,431	$2,483	$2,657	$2,866	$3,007	$3,140	$3,348	$3,683	$3,964	$4,370	$4,735	$5,118	$5,350	$5,540	$5,81
Difference	-$88	-$213	-$220	-$269	-$310	-$369	-$487	-$581	-$772	-$816	-$798	-$729	-$817	-$878	-$91
Pell % of Actual	96.5%	92.1%	92.4%	91.4%	90.7%	89.5%	87.3%	86.4%	83.7%	84.3%	85.6%	87.5%	86.8%	86.3%	86.4
PRIVATE 4 YEAR COLLEGE - LIVING ON CAMPUS															
Estimated Average Actual College Attendance Costs:															
Tuition & Fees	$1,925	$1,954	$2,084	$2,351	$2,520	$2,771	$3,020	$3,390	$3,855	$4,329	$4,726	$5,135	$5,550	$6,000	$6,48
Books & Supplies	$147	$165	$171	$183	$191	$202	$214	$231	$258	$263	$292	$319	$326	$349	$39
Room & Board	$1,115	$1,202	$1,301	$1,363	$1,448	$1,555	$1,679	$1,859	$2,094	$2,317	$2,518	$2,714	$2,950	$3,070	$3,19
Other Costs	$872	$968	$1,057	$1,118	$1,189	$1,280	$1,426	$1,619	$1,785	$1,891	$1,948	$2,016	$2,088	$2,120	$2,21
Total Actual Costs	$4,059	$4,289	$4,613	$5,015	$5,348	$5,808	$6,339	$7,099	$7,992	$8,800	$9,484	$10,184	$10,914	$11,539	$12,29
Pell Allowable College Costs:															
Tuition & Fees	$1,925	$1,954	$2,084	$2,351	$2,520	$2,771	$3,020	$3,390	$3,855	$4,329	$4,726	$5,135	$5,550	$6,000	$6,48
Books & Misc.	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$40
Room & Board	$1,115	$1,202	$1,301	$1,363	$1,448	$1,555	$1,679	$1,859	$2,094	$2,317	$2,518	$2,714	$2,950	$3,070	$3,19
Maintenance Allow.	$525	$525	$600	$638	$675	$713	$750	$863	$863	$938	$1,050	$1,200	$1,200	$1,200	$1,27
Allow. Pell Budget	$3,965	$4,081	$4,385	$4,752	$5,043	$5,439	$5,849	$6,512	$7,212	$7,984	$8,694	$9,449	$10,100	$10,670	$11,35
Difference	-$94	-$208	-$228	-$263	-$305	-$369	-$490	-$587	-$780	-$816	-$790	-$735	-$814	-$869	-$93
Pell % of Actual	97.7%	95.2%	95.1%	94.8%	94.3%	93.6%	92.3%	91.7%	90.2%	90.7%	91.7%	92.8%	92.5%	92.5%	92.4

Source: See Appendix Table A-2.

college attendance costs in 1973-74 covered just 56 percent by 1987-88, despite the increase in the off campus living allowance from $1100 to $1600 in 1984-85. (Note that different assumptions about dependency will alter this comparison substantially.)

Payment Schedule

The final design component of each year's Pell Grant Program is the Pell Grant payment schedule. This table brings together each applicant's Student Aid Index and allowable college costs to determine the dollar amount of the Pell Grant for which the student has applied.

This table is often released quite late, six months or more after all other components of the Program have been decided and announced. The payment schedule represents the final opportunity for Congress and the Department of Education to resolve any differences that may exist between the anticipated cost of the program and the resources available to fund student Pell Grants. In this sense, the Pell Grant payment schedule is an important rationing device to balance revenues with anticipated expenditures. Rationing may occur in any of several ways, including the maximum grant amount, the maximum qualifying SAI, and/or the amount of the minimum grant.

The payment schedule is normally determined through a relatively straightforward process of calculation constrained by such factors as maximum and minimum allowable college costs, proportion of allowable costs to be covered by the Pell Grant, and the maximum Grant amount set by Congress as funding is reviewed. When available funding is inadequate, the payment schedule may be reduced in a variety of ways or as in the past, funds may be borrowed from future Pell appropriations to pay current Program obligations.

Table 9 summarizes the major design components of the Pell Grant payment schedule since 1973-74. The many variables available to design Pell eligibility are apparent here.

Table 9

Pell Grant Full-Time Payment Schedule Summary

Academic/ Award Year	Maximum Qualifying SEI/SAI	Minimum Allowable College Cost	Maximum Allowable College Cost	Grant Limit of Allowable College Cost	Minimum Grant	Maximum Grant	Payment Schedule
1973-74	$1149	$1100	$1250	50%	$ 50	$ 452	Reduced
1974-75	1200	1500	2100	50%	50	1050	Reduced
1975-76	1200	400	2800	50%	200	1400	Full
1976-77	1200	400	2800	50%	200	1400	Full
1977-78	1200	400	2800	50%	200	1400	Full
1978-79	1600	400	3200	50%	176	1600	Full
1979-80	1600	400	3600	50%	200	1800	Full
1980-81	1600	400	3600	50%	150	1750	Reduced
1981-82	1550	400	3500	50%	120	1670	Reduced
1982-83	1600	400	3600	50%	126	1674	Reduced
1983-84	1600	400	3600	50%	200	1800	Full
1984-85	1700	400	3800	50%	200	1900	Full
1985-86	1900	300	3500	60%	200	2100	Full
1986-87	1500	300	3500	60%	150	2100	Reduced
1987-88	1900	300	3500	60%	200	2100	Full
1988-89	2000	300	3799	60%	200	2200	Full

Source: Pell Grant Payment Schedule, Annual.

IMPLICATIONS FOR APPLICANT ELIGIBILITY

The original intent of Congress — to make substantial grant assistance available to students on the basis of financial need — remains intact today. However, Congress expanded its original definition of financial need with the Middle Income Student Assistance Act in 1978, and continues to expand this conception of middle income financial need with the 1986 Amendments to the Pell Grant Program.

Under budgetary limitations, the expansion of eligibility to new groups of students and increase in eligibility to some previously eligible students has occurred at the expense of lowest income aid applicants. As a result,the Pell Grant has lost purchasing power relative to the costs of attendance faced by lowest SAI Pell Grant applicants eligible since 1975-76.

Who gains and who loses under the changes in applicant eligibility made by Congress in the 1978 and 1986 amendments? Due to the different formulas employed, any effort to identify those who have gained and those who have lost Pell Grant eligibility requires that dependent and independent applicants be considered separately.

Dependent Gainers

Factors affecting eligibility: Changes made by Congress to dependent applicant eligibility for Pell Grants have quite consistently expanded eligibility for dependent applicants. These changes were largely made in the 1978 Middle Income Student Assistance Act, effective in 1979-80, and the 1986 Amendments, effective in 1988-89. Three changes are most important to the extension of Pell eligibility to dependent applicants from middle income backgrounds:

1. Reduced assessment rates against discretionary income (1979-80)

2. Allowance for state and other taxes (1988-89)

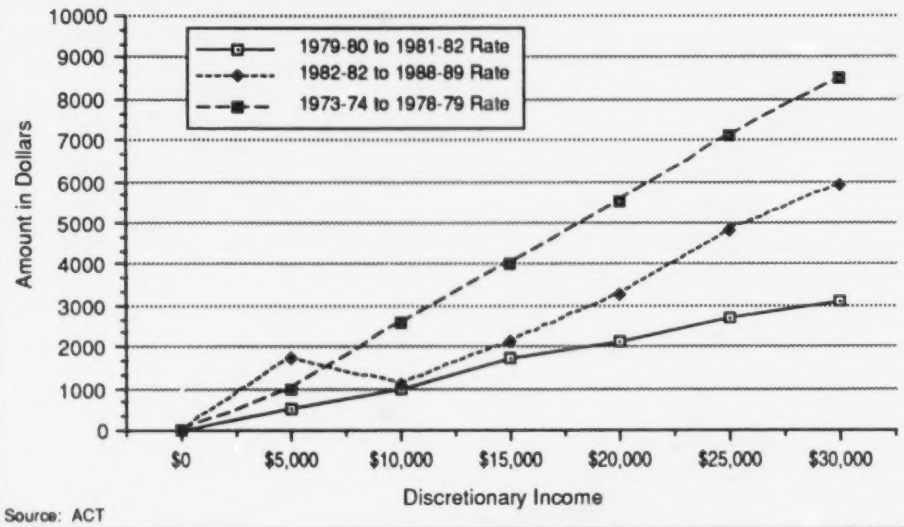
3. Reduced multiple student offset (1988-89)

The reduction in the assessment rate against discretionary income was the first and remains the most important effort by Congress to extend Pell eligibility to middle income aid applicants. The assessment rate

against discretionary income was 20 percent on the first $5000 and $30 percent on all discretionary income above $5000 from 1973-74 through 1978-79. Beginning in 1979-80, these rates were reduced to 10.5 percent on all discretionary income, through the Middle Income Student Assistance Act. For 1982-83, these rates were increased slightly to 11 percent of the first $5000 of discretionary income, 13 percent on the next $5000, 18 percent on the next $5000, and 25 percent on all discretionary income over $15,000. Despite their modification for 1982-83, these rates are well below the original assessment rates against discretionary income.

The effects of these three rate systems on the proportion of discretionary income taken for the SAI is illustrated in Figure 9. The net effect was and clearly remains to reduce the expected contribution from family income toward the SAI. This reduction in expected family contribution expands applicant eligibility for Pell Grants, but only for those with discretionary family income, and more for those with more discretionary family income. Applicants whose incomes fall below the family size offset — the poorest among Pell applicants — receive no benefit from this reduction in assessment rates against discretionary income because they do not have any.

Figure 8: Pell Grant Dependent Applicant Amount Expected from Discretionary Parental Income During Three Periods 1973-74 to 1988-89



Source: ACT

The allowance for state and other taxes in the 1986 Amendments is effective in 1988-89. The allowance varies from state to state, but

averages about 8 percent across all states. This allowance reduces the amount of discretionary family income assessable toward the family's SAI. The more discretionary family income there is, the greater is the benefit to dependent applicants. Applicants whose incomes fall at or below the family size offset — the poorest among Pell applicants — receive no benefit from this allowance.

The multiple student offset is another allowance that reduces the family's expected contribution toward meeting college costs when more than one family member is enrolled in college at the same time. Between 1973-74 and 1987-88, the multiple student offset was 70 percent when two family members were enrolled in college at the same time, 50 percent when three were enrolled, and 40 percent when four or more were enrolled. The 1986 Amendments reduced these rates to 50 percent , 33 percent and 25 percent , respectively. This reduction is a substantial benefit for families with several members enrolled concurrently and SAIs greater than zero. Applicants whose incomes fall below the family size offset — the poorest among Pell applicants — receive no benefit from this offset.

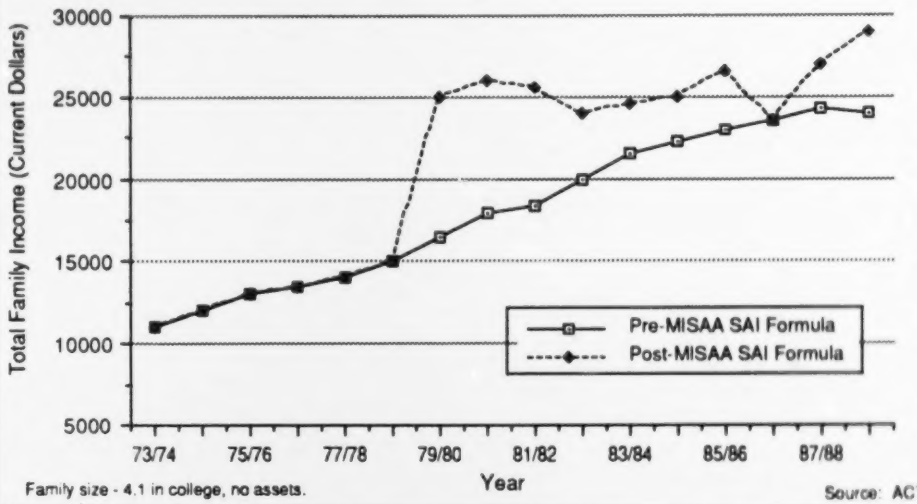
The effects of the above changes in the Pell Grant Program on applicant eligibility for Grants can be illustrated in a variety of ways. Three are shown here.

Maximum income cutoffs:
Figure 10 illustrates the maximum family income at which an applicant qualifies for the minimum Pell Grant under pre-MISAA and post-MISAA SAI formulas. (This case is a family of four, one in college, with no assets. Other family sizes and circumstances will alter the positions of these curves.)

Except for the 1986-87 award year when a funding shortfall forced a reduction in the Pell payment schedule, the expanded middle income eligibility for Pell Grants initiated with MISAA in 1979-80 has been preserved through 1987-88 and further expanded in 1988-89. For 1988-89, the example of a family used here could qualify for the minimum ($200) Pell Grant up to an income of $28,600. Under pre-MISAA SAI formulas, with higher assessment rates against discretionary income and no allowance for state taxes, only families with incomes up to $23,200 would have qualified for the minimum $200 Grant.

In addition to this higher income limit for the minimum Pell Grant, all applicants eligible to receive Grants less than the maximum grant qualify to receive larger grants under post-MISAA SAI formulas than

Figure 10: Maximum Qualifying Family Income for a Minimum Pell Grant Under Pre-MISAA and Post-MISAA Pell SAI Formula 1973-74 to 1988-89



they would have under pre-MISAA SAI formulas. For example, the family with $23,200 in income that would have qualified only for a $200 Pell Grant in 1988-89 under the original Pell formula actually qualifies for a Grant of $1150 because of the state and local tax allowance and the lower assessment rates against discretionary income.

Alternative formula simulations:

A second illustration of the effect of liberalized Pell eligibility is possible through use of the ACT Simulation Service, a part of ACT's Student Need Analysis Service. This simulation is used here to identify the family income levels that benefited from the liberalized dependent Pell eligibility criteria and to show the magnitude of the increased program costs that resulted from these changes.

Using a random sample of about 12,000 dependent Pell applicants for 1987-88 and two sets of dependent eligibility criteria — original Pell Program and 1988-89 Pell Program — Table 10 and the following figure summarize what happened. The proportion of applicants eligible under original Program criteria was 34.1 percent. After liberalization, 54.5 percent of this same applicant population became eligible.

This increase of about 20 percent in Pell applicant eligibility, however, was not spread evenly across income levels. As shown in Figure 11, the proportion of applicants that gained eligibility from total parental

TABLE 10: COMPARISON OF DEPENDENT APPLICANT ELIGIBILITY AND PROGRAM COST UNDER ORIGINAL 1973-74 TO 1978-79 AND 1988-89 SAI FORMULAS USING 1987-88 PELL APPLICANT FILE SAMPLE

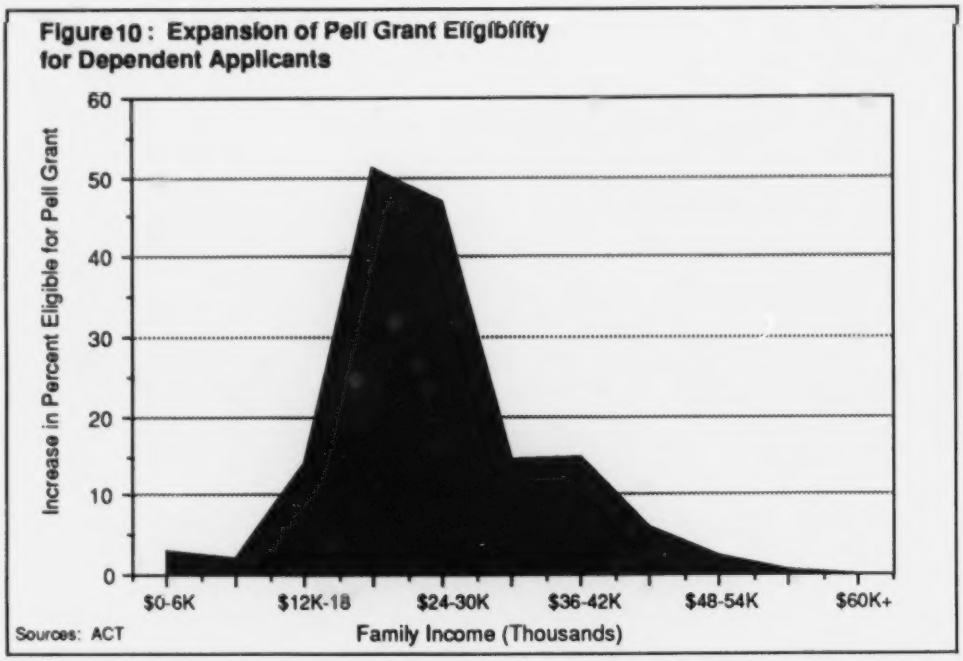
		ORIGINAL PELL PROGRAM					1988-89 PELL PROGRAM					EFFECTS OF INCREASED PROGRAM ELIGIBILITY	
		ELIGIBLE					ELIGIBLE					INCREASE	INCREASE
TOTAL PARENTS INCOME	SAMPLE	SAI	N	% ELIG	SAI	GRANT	COST	SAI	N	% ELIG	SAI	GRANT	COST	ELIGIBLE	COSTS
0 to $5999	1076	$528	1014	94.2%	$76	$1917	$1,943,838	$243	1056	98.1%	$40	$1951	$2,060,256	3.9%	$116,418
$6000 to $11,999	1304	$576	1209	92.7%	$246	$1783	$2,155,647	$360	1240	95.1%	$120	$1895	$2,349,800	2.4%	$194,153
$12,000 to $17,999	1647	$1552	1227	74.5%	$844	$1237	$1,517,799	$954	1444	87.7%	$501	$1566	$2,261,304	13.2%	$743,505
$18,000 to $23,999	1563	$2123	432	27.6%	$1101	$912	$393,984	$1742	1234	79.0%	$932	$1163	$1,435,142	51.4%	$1,041,158
$24,000 to $29,999	1531	$4360	104	6.8%	$1233	$863	$89,752	$2297	810	52.9%	$1141	$957	$775,170	46.1%	$685,418
$30,000 to $35,999	1352	$5761	30	2.2%	$718	$1368	$41,040	$3145	417	30.8%	$1226	$875	$364,875	28.6%	$323,835
$36,000 to $41,999	1105	$7207	12	1.1%	$73	$2000	$24,000	$4162	183	16.6%	$1346	$752	$137,616	15.5%	$113,616
$42,000 to $47,999	779	$8639	5	.6%	$0	$2082	$10,410	$5185	51	6.5%	$1372	$730	$37,230	5.9%	$26,820
$48,000 to $53,999	553	$9968	3	.5%	$477	$1633	$4,899	$6094	21	3.8%	$1317	$786	$16,506	3.3%	$11,607
$54,000 to $59,999	397	$10710	4	1.0%	$21	$2088	$8,352	$6467	9	2.3%	$852	$1244	$11,196	1.3%	$2,844
$60,000 and over	563	$14867	7	1.2%	$477	$1621	$11,347	$9395	9	1.6%	$407	$1630	$14,670	.4%	$3,323
TOTAL	11870	$4723	4047	34.1%	$513	$1533	$6,204,051	$2751	6474	54.5%	$596	$1462	$9,464,988	20.4%	$3,260,937

Original Pell Program: federal taxes, 20/30 DI assessment rates, and 100/70/50/40 multiple student offsets.
1988-89 Pell Program: federal and state taxes, 11/13/18/25 DI assessment rates, and 100/50/33/25 multiple student offsets/

TABLE 11: COMPARISON OF INDEPENDENT APPLICANT ELIGIBILITY & PROGRAM COST UNDER ORIGINAL 1973-74 TO 1978-79 AND 1988-89 SAI FORMULAS USING 1987-88 PELL APPLICANT FILE SAMPLE

		ORIGINAL PELL PROGRAM					1988-89 PELL PROGRAM					EFFECTS OF INCREASED PROGRAM ELIGIBILITY	
		ELIGIBLE					ELIGIBLE					INCREASE	INCREASE
TOTAL STUDENTS INCOME	SAMPLE	SAI	N	% ELIG	SAI	GRANT	COST	SAI	N	% ELIG	SAI	GRANT	COST	ELIGIBLE	COSTS
0 to $2999	1744	$87	1739	99.7%	$74	$1922	$3,342,358	$0	1744	100.0%	$0	$1984	$3,460,096	.3%	$117,738
$3000 to $5999	1199	$1346	756	63.1%	$603	$1408	$1,064,448	$19	1195	99.7%	$3	$1984	$2,370,880	36.6%	$1,306,432
$6000 to $8999	1002	$2241	451	45.0%	$108	$1878	$846,978	$464	988	98.6%	$431	$1603	$1,583,764	53.6%	$736,786
$9000 to $11,999	753	$2936	409	54.3%	$520	$1515	$619,635	$1318	453	60.2%	$390	$1632	$739,296	5.9%	$119,661
$12,000 to $14,999	549	$3465	270	49.2%	$955	$1110	$299,700	$1931	303	55.2%	$317	$1700	$515,100	6.0%	$215,400
$15,000 to $17,999	373	$4121	96	25.7%	$1155	$917	$88,032	$2601	209	56.0%	$450	$1622	$338,998	30.3%	$250,966
$18,000 to $20,999	265	$4282	39	14.7%	$1225	$850	$33,150	$3027	158	59.6%	$617	$1464	$231,312	44.9%	$198,162
$21,000 to $23,999	222	$5215	9	4.1%	$940	$1139	$10,251	$3489	143	64.4%	$916	$1177	$168,311	60.3%	$158,060
$24,000 to $26,999	167	$5344	4	2.4%	$771	$1325	$5,300	$3686	110	65.9%	$1168	$927	$101,970	63.5%	$96,670
$27,000 to $29,999	104	$6513	2	1.9%	$0	$2085	$4,170	$4543	49	47.1%	$1248	$850	$41,650	45.2%	$37,480
$30,000 and over	262	$20129	5	1.9%	$0	$2070	$10,350	$16108	43	16.4%	$1197	$897	$38,571	14.5%	$28,221
TOTAL	6640	$2831	3780	56.9%	$338	$1673	$6,323,940	$1568	5395	81.3%	$235	$1777	$9,586,915	24.4%	$3,262,975

Original Pell Program: federal tax allowance, 100/70/50/40 multiple student offset, $1800 single student family size offset, and DI rates of 50% for married and 40% if dependents other than spouse.
1988-89 Pell Program: federal and state tax allowance, 100/50/33/25 multiple student offsets, $5300 single student family size offset, and DI rates of 75% for married and 11%/13%/18%/25% if with dependents.



income levels below $12,000 per year was less that 4 percent, while the gain was over 50 percent for those from income levels of $18,000 to $24,000 per year, and 46 percent for applicants from families with incomes of between $24,000 and $30,000 per year. Even at family incomes of $42,000 to $48,000 per year, the gain in applicant eligibility was greater than it was for those from family incomes of less than $12,000 per year.

The costs added to the Pell Grant Program were similarly concentrated in middle family income ranges. (In 1985, median family income in the U. S. was $27,735 according to the Census Bureau.) Only 9.5 percent of the increased program costs went to dependent Pell applicants from family incomes below $12,000 per year. Over half of the increased Program costs went to applicants from families with incomes between $18,000 and $30,000. About 15 percent of the additional program costs were incurred by adding applicant eligibility from family income levels above $30,000 per year.

Effects of 1986 Amendments:

The expansion of middle income eligibility for Pell Grants initiated with MISAA in 1978 was continued through the 1986 Amendments. The two principal devices used to assist middle income dependent applicants were the allowance for state and local taxes, and the increase in the multiple student offset. The figures 12 and 13 show the

Figure 11 : Change in Pell Grant Between 1987-88 and 1988-89 for a Dependent Applicant, Family of Four, One in College at a Public Four-Year College

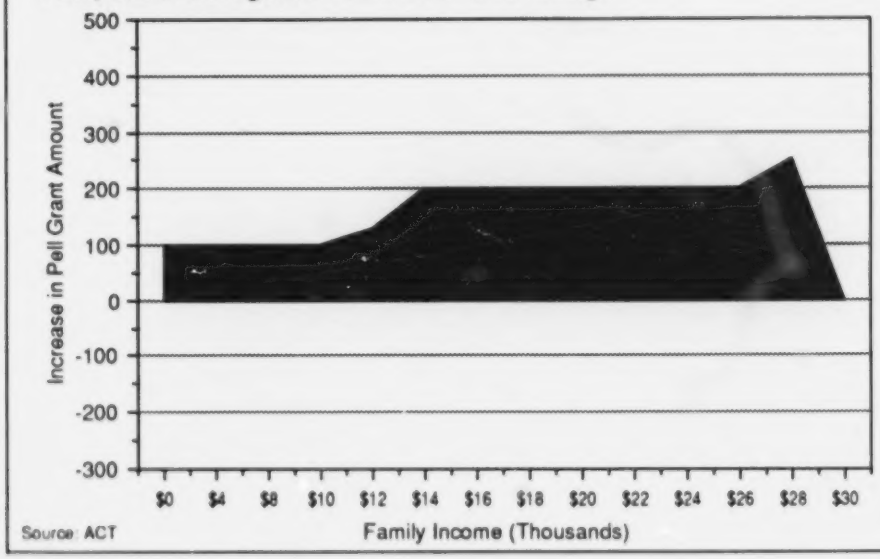
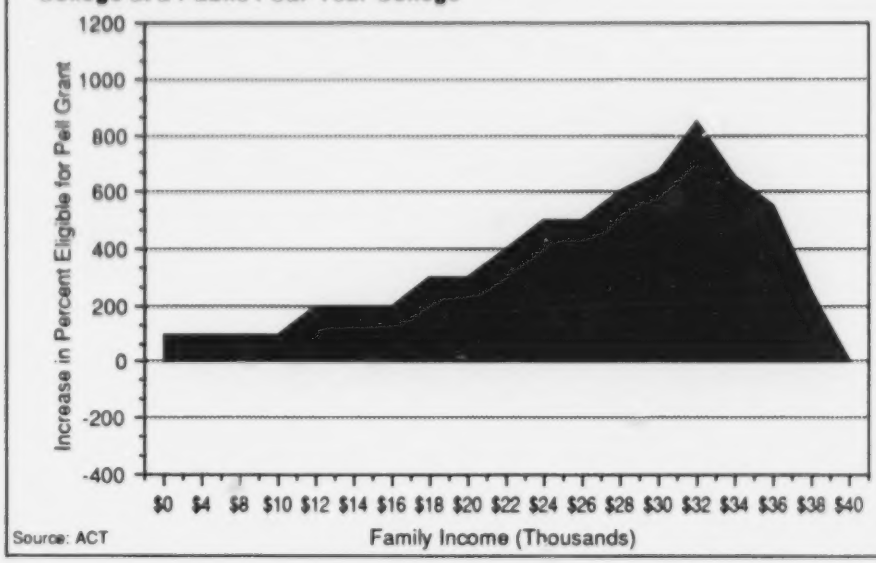


Figure 12 Change in Pell Grant Between 1987-88 and 1988-89 for a Dependent Applicant, Family of Four, Two in College at a Public Four-Year College



effects of these changes on applicant grant eligibility at a public four year college at different income levels between 1987-88 and 1988-89 for two representative dependent cases.

In the case of a dependent from a family of four with one in college, the Pell Grant for which the applicant was eligible increased by $90 between 1987-88 and 1988-89 for those from family incomes of $10,000 per year or less. The Pell Grant increased by $200 for applicants from family incomes of between $14,000 and $26,000 per year. At $28,000 per year, the Pell Grant increased by $250.

In the similar dependent case, but where two family members were in college, the Pell Grant increased by $90 at a public university for those from incomes below $8000 per year, by $200 at $16,000 per year, by $500 at $24,000 per year, and by $850 at $32,000 per year. The pattern is clear: the smallest gains in Pell Grant eligibility went to those from lowest incomes, while the largest gains went to those from much higher income levels.

The Pell Grant maximum award — for those with zero SAIs and therefore without apparent personal means to finance their college attendance costs — has lost purchasing power almost steadily over the life of the Program. For example, a maximum Pell Grant that covered 50 percent of the costs of attending a public two-year college in 1975-76 now covers 31 percent of these costs. At a public four-year college the Pell maximum that covered 44 percent of college attendance costs in 1975-76 now covers 31 percent. At a private four-year college, the maximum Pell Grant that covered 30 percent of costs in 1975-76 now covers about 17 percent of such costs. While the Pell Grant maximum - which only lowest income aid applicants may qualify for - has increased by 50 percent between 1975-76 and 1987-88, college attendance costs faced by such applicants have increased by 140 percent to 167 percent.

The accumulated preceding evidence appears to warrant the following conclusion: In the case of dependent Pell applicants with lowest SAIs, some significant portion of the funds required to maintain the purchasing power of the Pell Grant relative to actual college attendance costs has been reallocated by Congress, first in 1978 and again in 1986, toward applicants with higher SAIs to increase their Pell eligibility.

Independent Gainers and Losers

Congress has made several changes in the standards used to determine eligibility for Pell Grants for independent applicants as well. Because the single term "independent" encompasses many different circumstances, different cases are used here.

Factors affecting eligibility:
Generally the changes made to Pell Grant eligibility that have benefited middle income dependent applicants have also benefited independent applicants. These include reductions in assessment rates against discretionary income, allowances for state and local taxes, and multiple student offsets. However, other changes made by Congress have also benefited and sometimes reduced or eliminated independent Pell Grant applicant eligibility since 1973-74. These major changes made by Congress are:

1. Increased family size offset for single independents in 1979-80

2. Change in assessment rate against discretionary income for a married independent applicant without children, first a reduction in 1980-81 and then an increase in 1988-89

3. Reductions in assessment rates for independent applicants with dependents other than spouse first in 1980-81, and again for 1988-89

Single independent financial aid applicants make up about half of the ACT Family Financial Statement independent filing population. Between 1973-74 and 1978-79, the family size offset for the single independent case was about 35 percent of the federal poverty level. For family sizes greater than one, the family size offset was set at the federal poverty level. In 1979-80, the allowance for single independents was increased to approximately the poverty level, thus protecting income to this higher level from any assessment toward the applicant's SAI.

For married independent Pell applicants without dependents, Congress has changed the assessment rate against discretionary family income twice. The first time, in 1980-81, the rate was reduced from 50 percent to 25 percent. Then Congress reversed itself and increased this rate to 75 percent effective with the 1988-89 academic year. This increase will reduce or eliminate the eligibility of these applicants who have incomes above the family size offset.

Independent applicants w h dependents other than spouse have received the benefit of two reductions in the assessment rate against their discretionary family incomes. The original rate of 40 percent was first reduced to 25 percent in 1980-81, and then to a progressive rate schedule beginning at 11 percent for 1988-89. For grant applicants with incomes above the family size offset, these changes have and will increase Pell eligibility substantially.

Alternative formula simulations:
The combined effects of these changes plus state and local tax allowances and multiple student offsets on independent Pell applicant eligibility are shown in Table 11. Using the ACT Simulation Service again, two Pell SAI formulas were tested against a random sample of 6640 1987-88 ACT Family Financial Statement filers. One simulation used the formula to be employed in 1988-89, and the other employed formula criteria that were used during the first five years of the Pell Grant Program. The differences in formulas may be summarized as follows:

	Original Program	1988-89 Program
Family Size Offset:		
Family size is one	$1800	$5300
Tax Allowance:	federal	federal & state
Discretionary income assessment rates:		
Married with spouse	50%	75%
With dependents	40%	$1-5K: 11% $5-10K: $550 + 13% $10-15K: $1200 + 18% $15K+: $2100 + 25%
Multiple student Offset:	10/70/50/40	100/50/33/25

A bimodal distribution of beneficiaries under these changes results. The largest increase in eligibility for Pell Grants occur in the total student income intervals of $3000 to $9000 and $15,000 to $30,000. The largest gain in additional dollars — an increase of 63 percent — occurred in the $3000 to $9000 income range. Again, the lowest income Pell applicants were not the primary beneficiaries of the liberalization in Pell eligibility that occurred after the first six years of the Program.

Effects of 1986 Amendments by income level:
Four independent student cases were studied to determine the effects of the 1986 Amendments on Pell applicant eligibility changes between

1987-88 and 1988-89. To assist in the focus of the discussion, changes in Pell eligibility at only a public four-year college are reported here.

For a single independent applicant at an income of less than $4000, the Pell Grant will increase by $90 between 1987-88 and 1988-89. At $6000 of income, the Pell Grant will increase by $200. At $7000 and $8000 of income, the Pell Grant will increase by $300.

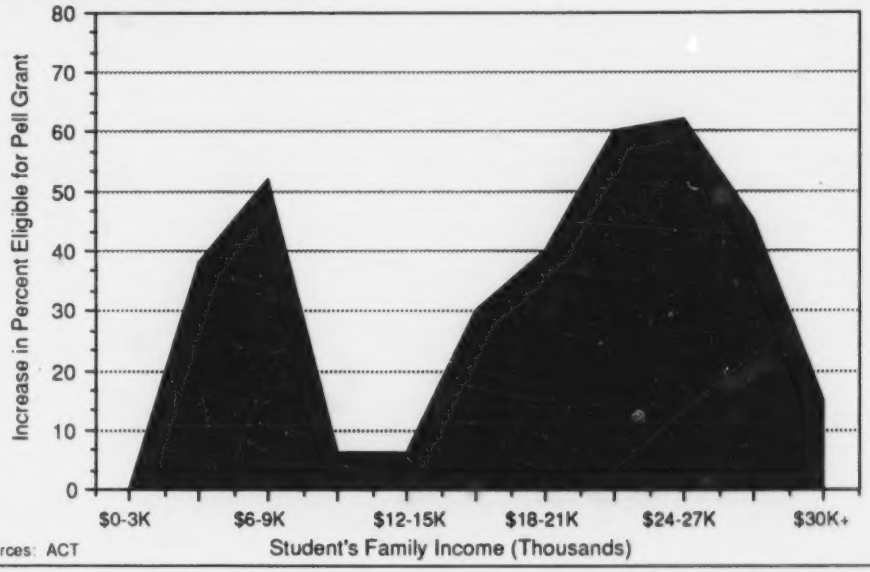
For an unmarried independent applicant with a dependent, Pell Grants at a public four-year college will increase by $100 between 1987-88 and 1988-89 from income levels through about $8000. Above that income, increases will be greater. At $10,000 Pell Grants will increase by $400. At $14,000 they will increase by $800. At $18,000 they will increase by $1350. Increases will be greater than the $100 increase to be experienced by zero SAIs for all income levels up through $26,000 per year.

For married independents without other dependents, the increase in discretionary income assessment rates from 25 percent to 75 percent will reduce or eliminate many previously eligible Pell applicants. Only the lowest income eligible applicants will see increases. Up to about $7000 in income, Grants will increase by $90 to $100. However, above that level or the amount protected by the family size offset plus tax allowances, grants will decrease. At $8000 Grants will decrease by $200. At $10,000 they will decrease by $1100, and at $11,000 Grants will decrease by $1150. In fact, whereas married independent applicants were eligible for Pell Grants up through about $15,000 of income in 1987-88, they will be eligible for minimum awards only up to about $10,000 in 1988-89.

If, however, the married independent Pell applicants have a dependent, the reduction in discretionary income assessment rates will actually expand the eligibility for grants in 1988-89. Up to about $8000 in family income Pell Grants will increase by $90. At $12,000 they will increase by $600. By $18,000 they will increase by $1250. The upper income limit for a minimum Pell Grant will increase from about $16,000 in 1987-88 to about $26,000 in 1988-89.

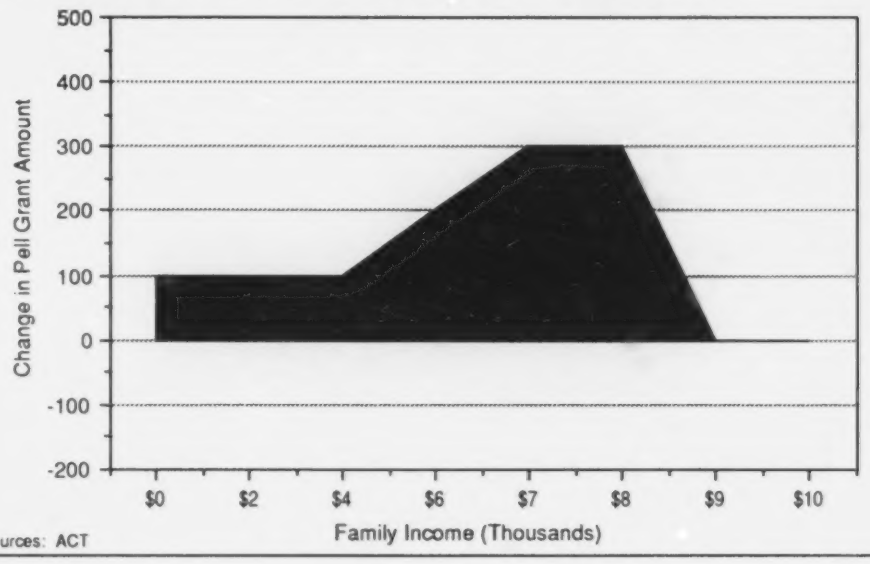
With the exception of the married independent applicants without dependents, the evidence again appears to justify the following conclusion: In the case of independent Pell applicants with lowest SAIs, some significant portion of the funds required to maintain the purchasing power of the Pell Grant relative to actual college attendance costs has been reallocated by Congress, first in 1978 and again in 1986,

Figure 13 : Expansion of Pell Grant Eligibility For Independent Applicants



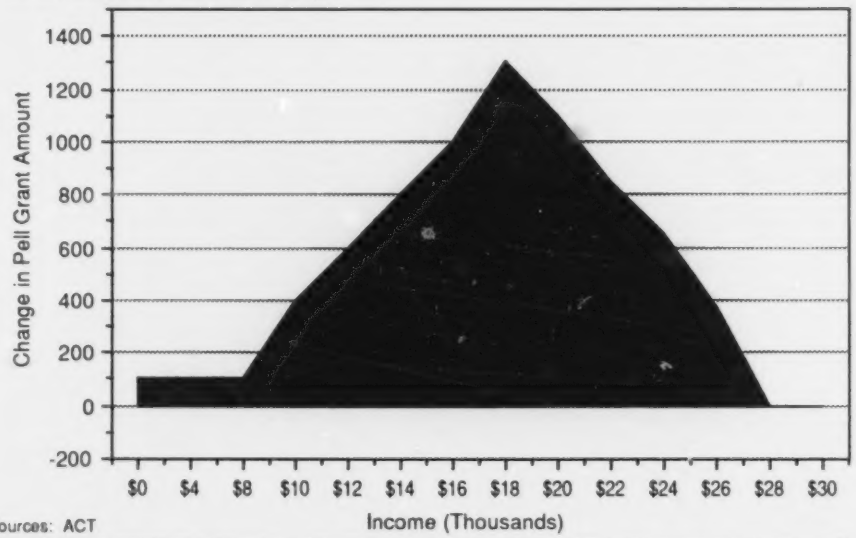
Sources: ACT

Figure 14 Change in Pell Grant Between 1987-88 and 1988-89 for a Single Independent Applicant at a Public Four-Year College



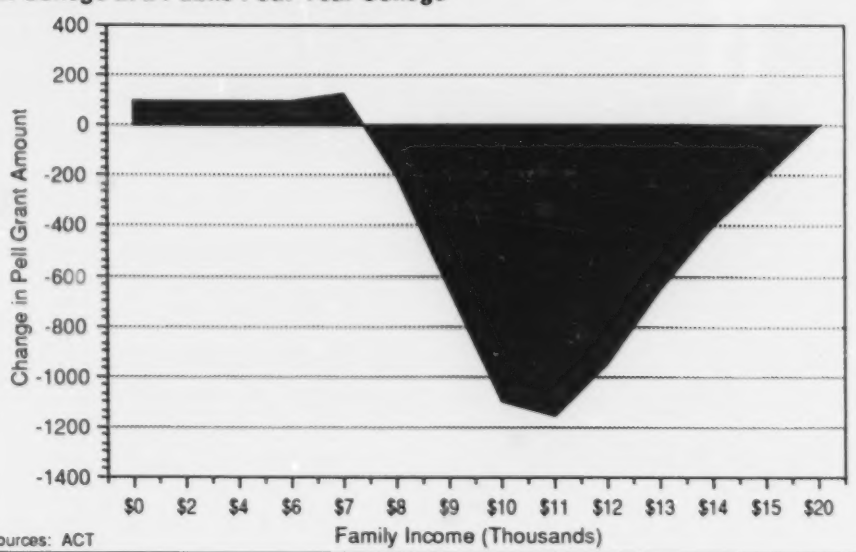
Sources: ACT

Figure 15 : Change in Pell Grant Between 1987-88 and 1988-89 for an Unmarried Independent with Child at a Public Four-Year College



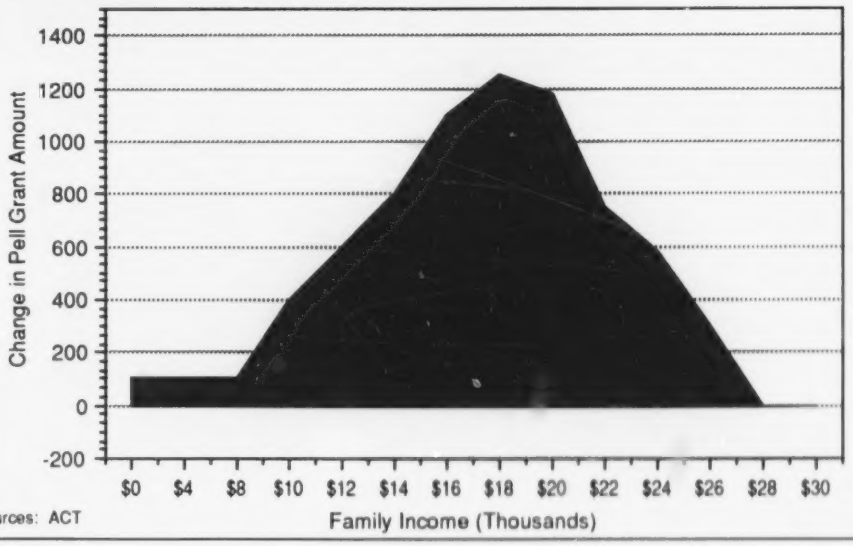
Sources: ACT

Figure 16 : Change in Pell Grant Between 1987-88 and 1988-89 for a Married Independent Applicant, One in College at a Public Four-Year College



Sources: ACT

Figure 17 : Change in Pell Grant Between 1987-88 and 1988-89 for a Married Independent Applicant, with one Child, One in College at a Public Four-Year Coll[illegible]e



Sources: ACT

toward applicants with higher SAIs to increase their Pell eligibility. The exception, of course, is the substantially reduced Pell Grant eligibility for married independents without dependents who have incomes above the level protected by the family size offset and tax allowances.

With only one exception, changes to dependent and independent Pell applicant eligibility have been in the direction of expanded eligibility and Program cost. Under the restriction of limited Program funding, this expanded eligibility has been financed partly by lack of growth in the maximum Pell Grant provided for those with zero SAIs.

The changes made to the original Basic Educational Opportunity Grant Program by the Middle Income Student Assistance Act of 1978 and the 1986 Amendments have clearly and quite consistently shifted its focus. Congress has decided, for both dependent and independent Pell Grant applicants, to expand eligibility to additional classes of previously ineligible applicants while increasing grants to others previously eligible without funding adequate to match college attendance cost increases.

Under the constraint of limited funding, these additions have been partially financed through lack of growth in the maximum Pell Grant

for the lowest SAI applicants. Although the maximum Pell Grant is authorized for annual increases under the 1986 Amendments, available funding will be largely used to create or expand eligibility for applicants other than those from lowest family resource levels.

Endnotes

[1] L.E. Gladieux and T.R. Wolanin, *Congress and the Colleges,* D.C. Heath and Co., Lexington, MA, 1976.

[2] T.W. Hartle and J.B. Stedman, "A View of the Higher Education Act," *Values in Conflict, Funding Priorities for Higher Education,* M.P. KcKeown and K. Alexander, eds., American Education Finance Association/Ballinger, Cambridge, MA, 1986.

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Trends in Financial Aid Among Blacks and Non-Blacks in Maryland

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Maryland State Board for Higher Education

While financial aid has made higher education more available to all Americans, it has been especially important to blacks. The dramatic growth of black student enrollment on the nation's campuses during most of the 1970s reflects in part the impact of federal and state assistance programs. The establishment of these programs, beginning in the mid 1960s, was prompted by concerns about racial justice and equality and the integration of minorities into the mainstream of American life[1]. Government policy-makers, interested in translating educational attainment into job opportunities, sought to use financial aid as a means for eliminating the monetary barriers to college matriculation and graduation.

However, since 1978, fewer black students have been attending college. This decline has been attributed in part to the skyrocketing costs of postsecondary education combined with changes in the availability of financial aid programs. Since 1981, inflation has outpaced increases in financial assistance, loans have taken primacy over grants in aid packages due to cuts in federally-based aid funding, and families have been expected to make greater contributions to cover costs. Black students have traditionally relied more on financial aid to pay for college than have nonblacks, so they are likely to have been more adversely affected by these developments[2]. Indeed, minority aid applicants have been more inclined than their white counterparts to perceive financial assistance as essential to their ability to attend college[3].

Reductions in financial aid also appear to have affected the retention rates of black students who do enroll. Research has shown that blacks who received financial assistance were twice as apt to persist in college than were those without aid, and that blacks were more likely to drop out as a result of financial aid cuts than were whites and other minority students[4].

One of the major goals of higher education in Maryland has been access. Since its adoption in 1978, the Statewide Plan for Postsecondary Education has endorsed the objective of making educational programs

and other resources available to all Maryland citizens who can benefit from them. For educational opportunities to be accessible, they must be affordable. Because of the economic forces described above, a college education is increasingly beyond the reach of many low-income Americans, a disproportionate number of whom are black. This problem is exacerbated in Maryland, where tuition and fee levels at public institutions are well above those of comparable schools in other states and where tuitions at private campuses have sharply increased in recent years. Hence, the ability of black students in Maryland to participate in the college experience may depend on their success in assembling an adequate financial aid package.

This paper represented an effort to gain an understanding of this situation, by describing the level of financial assistance received by black students attending Maryland's public colleges and universities and comparing their record with that of nonblacks. Specifically, the paper focuses on trends in various types of financial support received by undergraduate and graduate/professional student enrolled at a Maryland public college or university between Fall 1981 and Fall 1985. These are the most recent years for which figures were available at the time the study was undertaken, and they also coincide generally with the period in which cuts in federally-funded aid programs took place.

Data Sources

Two sources were used primarily in preparing this paper. The first was the State Board for Higher Education Form S-5, "Financial Aid Information," which public two- and four-year colleges and universities are required to submit annually. Institutions report, by gender and race, the total dollar amounts awarded and the number of awards for specific types of grants, loans, scholarships, and student employment in the previous year. Schools also are asked to provide the number of students receiving each of these types of awards. Information is collected for both undergraduate and graduate/professional students.

The second source was an annual survey of bachelor's degree recipients from Maryland public colleges and universities which the State Board for Higher Education has conducted since 1980. Questionnaires have been sent to all graduates one year after they earned their baccalaureates. Return rates have averaged 50 percent. Questions on the graduates' financial aid situation while in college have been on the survey since 1983.

This paper also used information from the Maryland Higher Education Loan Corporation data tape on Guaranteed Student Loan recipients in Maryland, the Pell data tape on Maryland residents who applied for Pell Grants, and the State Board for Higher Education Enrollment Information System.

Maryland Public Higher Education

Maryland has 32 public campuses. Nineteen are community colleges. Six of the four-year institutions make up the State University and College System; about 85 percent of the students enrolled at these schools are undergraduates. Five of the campuses comprise the University of Maryland System, where nearly 80 percent of the enrollment is undergraduate. Morgan State University, which is about three-fourths undergraduate, and St. Mary's College of Maryland, which is entirely devoted to undergraduate education, have their own governing boards. Maryland will initiate a new higher education governance arrangement July 1, 1988 in which the campuses in the State University and College System will become part of an expanded University of Maryland System.

Enrollment Trends among Blacks and Non-Blacks

Patterns in the financial aid received by blacks and nonblacks have to be considered in the context of student enrollment. The number of full-time black undergraduates on Maryland public campuses fell 15 percent between 1981 and 1985, while the enrollment of nonblacks declined 2 percent. The community colleges experienced the greatest drop among both races. There was virtually no change in the number of part-time black undergraduates attending Maryland public institutions during this period, and there was a 7 percent rise in part-time enrollment among nonblacks. Enrollment trends among full-time undergraduates are especially relevant to this paper, since these students are the greatest recipients of financial aid. Most of the undergraduates of both races who obtained a Guaranteed Student Loan or a Pell Grant in 1985 were full-timers.

Graduate and professional full-time enrollment increased during this period: 15 percent among blacks and 6 percent among nonblacks.

There was a 5 percent decline in the number of blacks attending graduate or professional school on a part-time basis, while there was a 3 percent rise in nonblack part-timers.

Trends in Financial Support Among Undergraduates

An examination was made of the financial aid awarded to blacks and nonblacks in terms of the number of students receiving assistance, the total dollars awarded, and the average amount of support obtained by each student. For undergraduates, the types of aid included grants (most of which were Pell Grants), loans (Guaranteed Student Loans represented the majority), scholarships, and student employment (mostly college work-study funds). For graduate students, the kinds of aid included grants, scholarships and fellowships; loans; and student employment (mostly assistantships).

Figures 1-3 present five-year trends in total support among black and nonblack undergraduates at Maryland public campuses. Seventeen percent fewer blacks received some form of assistance in 1985 than in 1981, although most of the decline came in the final year. However, the total amount of aid to blacks during this period rose by 16 percent, and the average award increased 40 percent from $1,475 to $2,060. The number of nonblacks obtaining some kind of aid during these years increased by 23 percent, total dollars by 41 percent and the

Figure 1: Trends in Total Support at MD Public Campuses
Number of Students

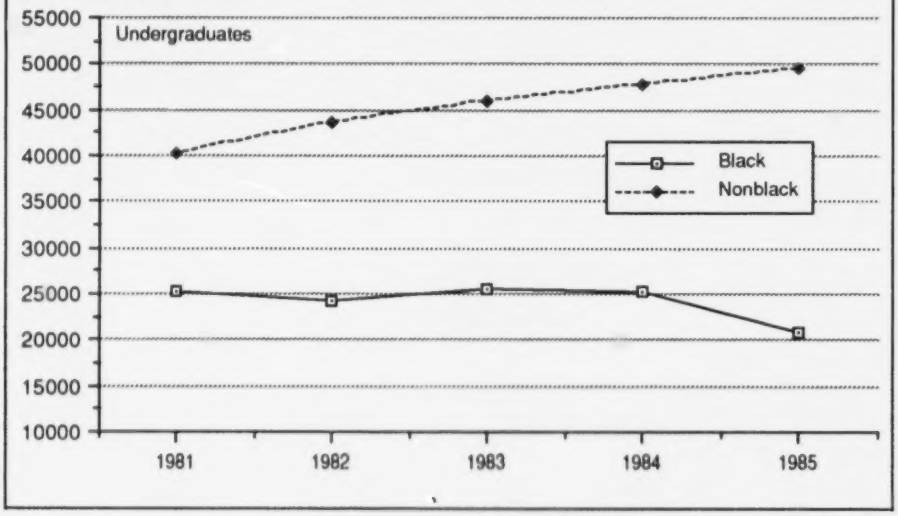


Figure 2: Trends in Total Support at MD Public Campuses
Total Dollars (in Thousands)

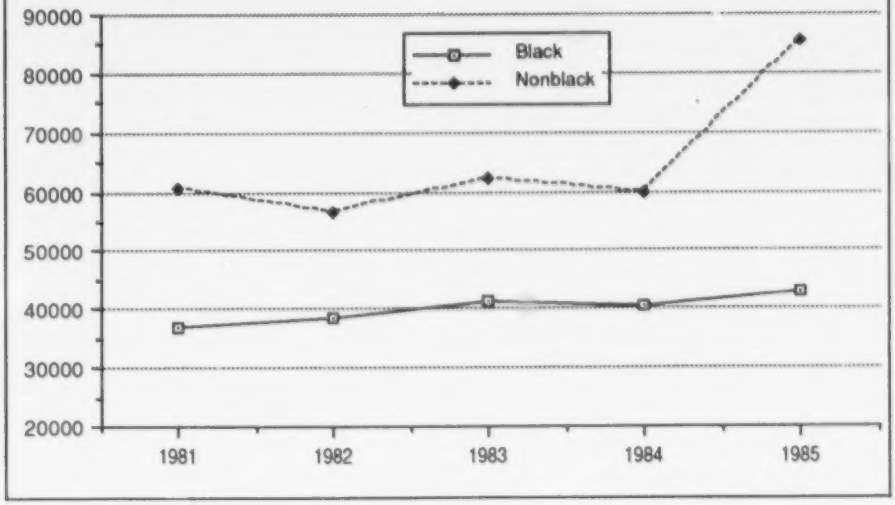
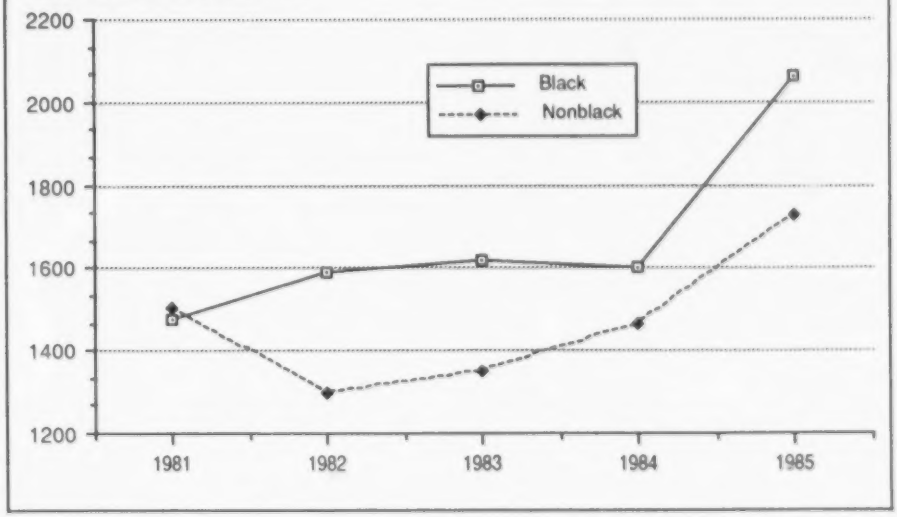


Figure 3: Trends in Total Support at MD Public Campuses
Average Dollar Amounts

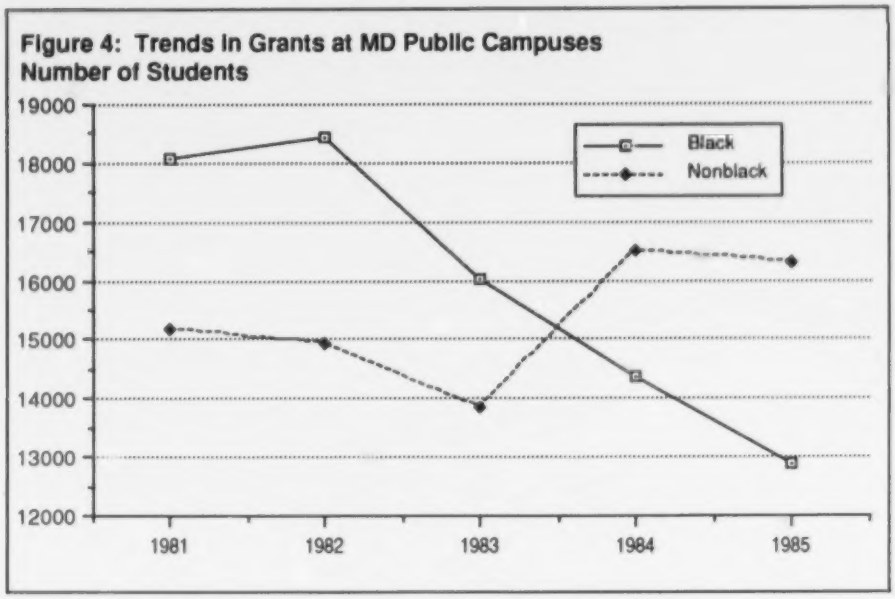


average award by 15 percent from $1,504 to $1,731. However, the average dollar amounts received by nonblacks have increased steadily since 1982, after declining the previous year. Except in 1981, the average award to blacks exceeded that of nonblacks.

These overall figures hide differences among campuses. At the community colleges, the number of black students getting aid fell 22 percent between 1981 and 1985, but the amount of assistance rose by 7 percent. As a consequence, the average award to blacks was up 37 percent. In contrast, the average dollar amount received by nonblacks increased just 3 percent, but this was because the rise in the number of students obtaining aid and the total dollars was about the same (34 percent and 38 percent respectively). The number of black students on campuses in the State University and College System who received aid dropped by 14 percent, but the total amount of assistance rose by 7 percent, producing a 25 percent rise in the average award. The number of nonblacks receiving assistance edged up 1 percent, but a 25 percent increase in the total dollars available resulted in a 24 percent rise in the average dollar amount received by students. Black undergraduates at the University of Maryland campuses experienced a 61 percent jump in their average financial aid award during the five-year period, although most of this rise occurred between 1984 and 1985. The number of blacks receiving aid declined by just 2 percent, while there was a 57 percent increase in the total amount of aid. The average dollar amount of aid received by nonblacks rose by 23 percent. There was a 25 percent increase in the number of nonblack students getting aid and a 53 percent jump in total dollars available during this period.

The number of black undergraduates on Maryland public campuses who received grants declined 29 percent between 1981 and 1985. This was primarily the result of a sharp drop in the number of Pell Grant recipients at the community colleges and, to a lesser degree, the institutions under the State University and College System. However, the amount of grant money available to blacks during this period inched up 1 percent, so the average grant per student increased 42 percent. Nonblack undergraduates experienced an 8 percent rise in the number obtaining grants and a 54 percent jump in total grant dollars; this translated into a 43 percent increase in the average grant to nonblacks. The average dollar amount of grants received by blacks was slightly higher than that of nonblacks throughout the five-year period.

A different pattern emerged on loans. The number of black undergraduates who received loans during the five-year period rose 18 per-



cent, and the amount of loan monies distributed to blacks went up 39 percent. The average dollar amount borrowed increased by 17 percent. An explanation is required in examining the patterns among nonblacks, because of the sharp decline in the total loan dollars and the average amount borrowed between 1981 and 1982. Beginning in Fall 1981, applicants for a Guaranteed Student Loan whose family's adjusted gross income exceeded $30,000 had to demonstrate financial need in order to be eligible. Nonetheless, between 1982 and 1985, there has been a noticeable rise in both the total amount of loan money and the average loans received by nonblacks. Further, the number of nonblack undergraduates taking out loans increased by 13 percent during the five-year period. Since 1982, the average loan of nonblacks also has exceeded that of blacks.

The decline in the number of black undergraduates receiving grants and the increase in those with loans raises the concern whether some of these students, particularly those from economically disadvantaged backgrounds, may be incurring debt rather than applying for awards for which they qualify. (Table 1) shows the percentage of black and nonblacks undergraduates on Maryland public campuses in 1985 who received a Pell Grant, a Guaranteed Student Loan or both; those with neither were not included. Overall, a much higher percentage of students of both races had obtained a Pell Grant than a Guaranteed Student Loan (89 percent to 57 percent among blacks and 84 percent to 57 percent among nonblacks). Less than 10 percent of the blacks and nonblacks in the income range under $20,000 had obtained only a

Figure 5: Trends in Loans at MD Public Campuses
Total Dollars (in Thousands)

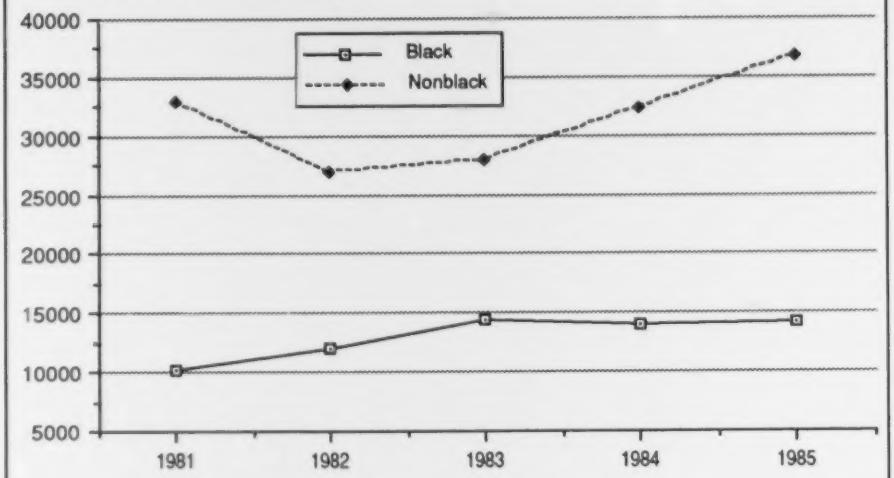


Table 1
Black and Nonblack Undergraduates at Maryland Public Colleges & Universities Who Received a Guaranteed Student Loan and/or a Pell Grant, By Family Adjusted Gross Income

	Pell Grant Only		Both		GSL Only	
	1982	1985	1982	1985	1982	1985
Black						
Less than $10,000	57%	47%	39%	47%	4%	6%
$10,000 to $19,999	61%	52%	34%	41%	5%	7%
$20,000 to $29,999	49%	42%	42%	46%	10%	12%
$30,000 to $49,999	52%	31%	36%	48%	12%	21%
$50,000 or more	62%	16%	20%	48%	18%	36%
All Students	56%	43%	37%	46%	6%	11%
Nonblack						
Less than $10,000	51%	47%	42%	46%	7%	7%
$10,000 to $19,999	54%	50%	37%	41%	10%	9%
$20,000 to $29,999	46%	44%	39%	42%	16%	14%
$30,000 to $49,999	44%	44%	34%	38%	22%	19%
$50,000 or more	38%	24%	25%	38%	37%	38%
All Students	48%	43%	37%	41%	15%	16%

guaranteed Student Loan; in contrast, between 47 percent and 52 percent of these students had only a Pell Grant. Only among families in which the adjusted gross income was $50,000 or more were there more Guaranteed Student Loan than Pell Grant recipients. A greater percentage of nonblack than black students with family salaries of $30,000 or more had obtained only a Pell Grant.

Five percent fewer blacks received scholarships in 1985 than in 1981. However, total scholarship dollars for blacks jumped 25 percent, so the average scholarship per black undergraduate increased 32 percent. In comparison, there was a 34 percent increase in the number of nonblacks receiving scholarships and a 60 percent hike in the total dollars which went to nonblacks for scholarships. This resulted in a 19 percent boost in the average scholarship of nonblacks. The average black scholarship was consistently higher than that of nonblacks during this period.

The analysis of campus-based student employment focuses on 1981 to 1984, since the data supplied for 1985 by one campus, University of Maryland College Park, used a different frame of reference and would make comparison meaningless. The number of black undergraduates receiving aid in the form of student employment fell by 11 percent during this period, but the amount of dollars available rose by 2 percent. Thus, the average award for each student rose by 15 percent. Nonblacks experienced a 7 percent rise in the number receiving employment assistance and a 21 percent jump in total dollars. The average amount of assistance for nonblacks increased 21 percent. The average aid figure for blacks has been regularly higher than that of nonblacks.

So far, this paper has focused only on the number of students who have received aid. The percentage of blacks who have gotten some form of assistance has been at least double that of nonblacks. However, the percentage of black undergraduates with aid has consistently declined from 76 percent in 1981 to 68 percent in 1985, while the proportion of nonblacks who received support has steadily risen from 30 percent in 1981 to 34 percent in 1985. A much greater percentage of blacks than nonblacks received grants. But the proportion of blacks getting a grant declined steadily from 54 percent in 1981 to 42 percent in 1985, while the figure among nonblacks remained constant (11 percent in both 1981 and 1985). The percentage of black undergraduates who had loans increased from 19 percent in 1981 to 28 percent in 1983, then fell to 24 percent in 1985; twelve percent of the nonblacks had loans in each of these years. Twenty percent of the black undergraduates

Figure 6: Trends in Employment at MD Public Campuses
Number of Students

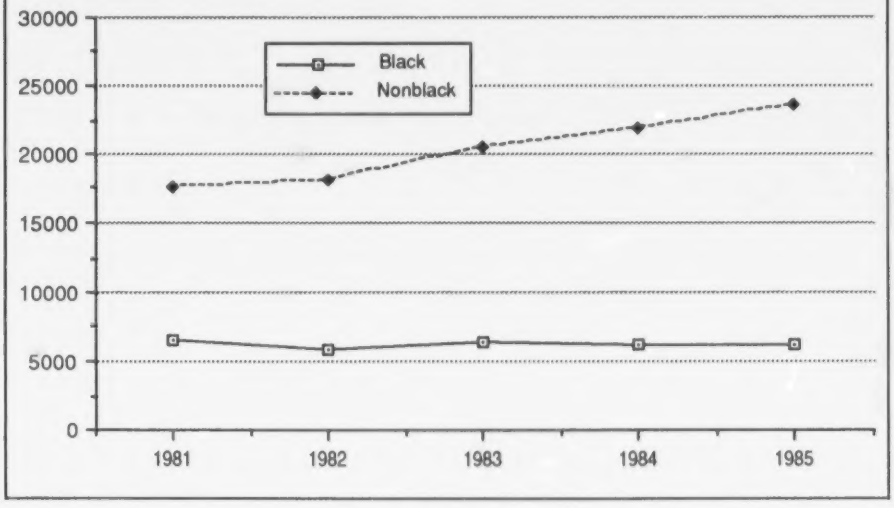
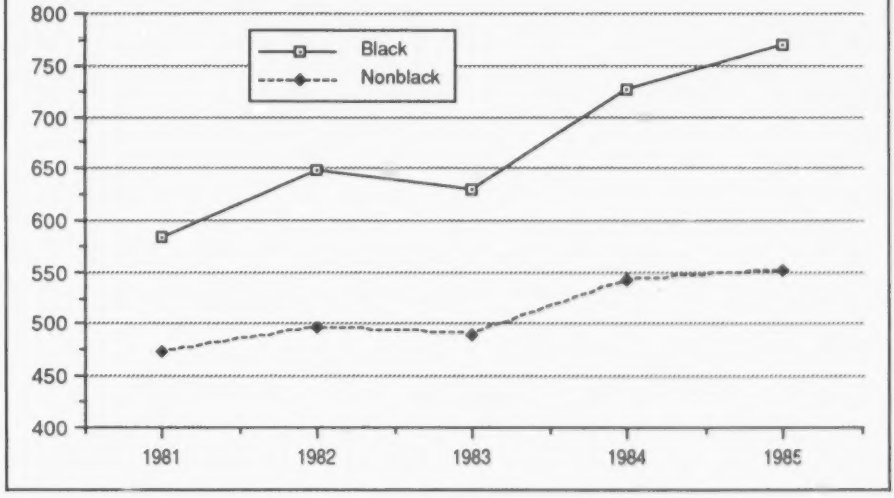


Figure 7: Trends in Employment at MD Public Campuses
Average Dollar Amounts



received scholarships in both 1981 and 1985, while the proportion of nonblacks who obtained scholarships increased slightly from 13 percent to 16 percent. There was little change in the proportion of blacks who had campus-based student employment (14 percent in 1981 and 15 percent in 1985), while the percentage of nonblacks who received this form of aid nearly doubled during this period (5 percent to 9 percent).

The follow-up survey of baccalaureate recipients from Maryland public institutions supplied further information about the financial aid situation of black and nonblack students since 1983. This included an indication of the amount of aid received while in college, the extent of indebtedness at graduation, and the importance of financial support to degree completion.

In each year, about three-fourths of the blacks who responded to the survey reported that they had received financial assistance through scholarships, grants of VA benefits while in college, compared with slightly more than half of the nonblacks. Of those individuals who received some aid, the median amount obtained by blacks consistently exceeded that of nonblacks. More blacks than nonblacks indicated that they owed on loans obtained to finance their education at the time they graduated. A majority of blacks in each year reported that they had at lease some debt, while most nonblacks did not. The percentage of graduates of both races who owed nothing has steadily declined. The median debt of black graduates rose swiftly during the three year period, from $2,788 to $4,444. In contrast, the median amount owed by nonblacks remained relatively steady. As a result, the median debt of blacks, which greatly trailed that of nonblacks in 1983, passed it two years later (see Figure 8). The gap in the median indebtedness of blacks and nonblacks who were employed full-time also narrowed during the three-year period, but there was minimal change in the edge which nonblacks held in median annual salary—a finding which has consequences for the ability of blacks to repay loans. Finally, the comparative importance of financial support to blacks and nonblacks was demonstrated by the responses to the following survey question: "Would you have been financially able to complete your degree without the aid you received?" In each year, a solid majority of black graduates answered "no", compared to slightly more than one-third of nonblacks.

Figure 8: Median amount Owed on Loans at Graduation
Bachelor's Degree Recipients

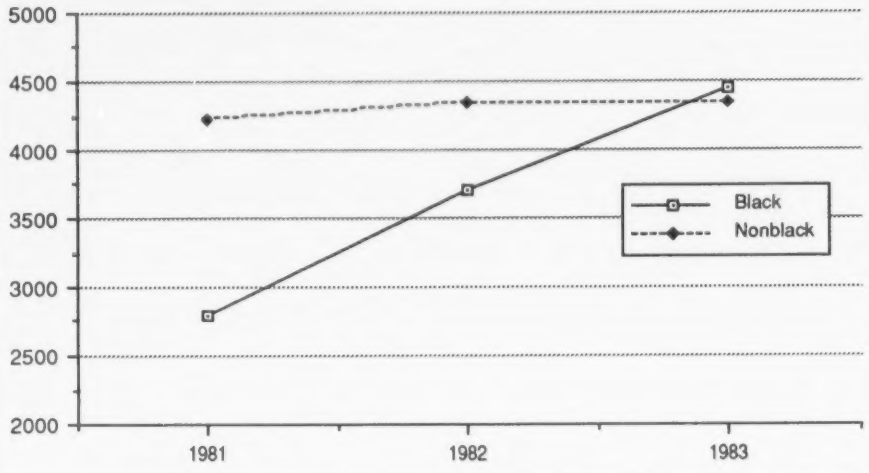


Table 2
Median Annual Salary of Graduates Employed Full-Time and the Amount Owed on Loans at Time of Graduation, By Race

	1983		1984		1985	
	Salary	Median Debt	Salary	Median Debt	Salary	Median Debt
Black	$14922	$2868	$16860	$3375	$17634	$3960
Nonblack	$17058	$4203	$19179	$4320	$19629	$4405

Note: Medians exclude graduates who had no debt

Source: SBHE Follow-up Surveys

Trends in Financial Support Among Graduate and Professional Students

Total financial assistance for graduate and professional students on Maryland public campuses rose between 1981 and 1985, and there was slight difference between the rate of increase for black and nonblack graduates. The number of students of both races who received aid moved up 13 percent during this period, and the total dollars awarded jumped 50% for blacks and 46 percent for nonblacks. This translated into a 32 percent increase in the average dollar award per student among blacks and 29 percent among nonblacks. It should be noted, however, that there was a substantial increase in the average amounts received by both races between 1984 and 1985 — the result of a sharp one-year drop in the number of graduate and professional students receiving aid. Throughout this period, the average financial aid package of nonblack graduate and professional students exceeded that of blacks.

As with undergraduates, there were variations among the higher education segments in the State. At the University of Maryland campuses, there was a 6 percent decline in the number of black graduate or professional students receiving aid. However, the dollars received rose by 39 percent, resulting in a 48 percent hike in the average per student award. The number of nonblack students increased 13 percent, with a 50 percent jump in the total monies and a 33 percent rise in the average dollar amount. There was a 46 percent rise during the five-year period in the number of black graduate and professional students on campuses in the State University and College System, and total funds obtained almost doubled. This resulted in a 34 percent increase in the average dollar award. In sharp contrast, there were just 14 percent more nonblack students receiving aid in 1985 than in 1981, and a 71 percent increase in total dollars. Hence the average dollar amount for each student fell by 6 percent during the period. The average award for nonblacks tended to be higher than that for blacks at the institutions under both the University of Maryland and the State University and College System, although the difference was less pronounced at the latter campuses.

The patterns in specific types of financial aid were often marked by sharp fluctuations, which distorted the five-year trends. The average grant, scholarship or fellowship award of black graduate and professional students consistently exceeded that of nonblacks between 1981 and 1985, although the difference between the two races narrowed in the last year. On the other hand, the average loan per student of non-

blacks was regularly greater than that of blacks. And the average dollar amount of aid for campus-based student employment received by nonblacks was repeatedly much higher than that obtained by blacks.

Table 3 shows the percentage of black and nonblack graduate/professional students at Maryland public institutions who had received financial support in 1981, 1983, and 1985. In each year, a greater percentage of blacks than nonblacks obtained some form of financial help with their studies. The percentage of blacks who were awarded a

Table 3 – Percentage of Black and Nonblack Students at Maryland Public Colleges & Universities Who Have Received Financial Support (Graduate/Professional Students)

	1981		1983		1985	
	Black	Non Black	Black	Non Black	Black	Non Black
Institutional Grants/ Scholarships/Fellowships	7%	4%	17%	9%	13%	6%
All Grants*	26%	11%	28%	14%	26%	12%
Nationals Direct Student Loans	5%	2%	8%	3%	8%	3%
Guaranteed Student Loans	14%	17%	23%	16%	28%	15%
All Loans*	19%	18%	28%	17%	34%	19%
All Student Employment	10%	15%	9%	17%	9%	21%
Total Support*	48%	38%	60%	47%	53%	41%

* Unduplicated number Source: SBHE Form S-5, SBHE Enrollment Information Systems

grant, scholarship or fellowship was at least double that of nonblacks in each year. There was a marked rise in the proportion of black students who took out loans to finance their advanced education: 19 percent in 1981, 28 percent in 1983, and 34 percent in 1985. In contrast, the percentage of nonblacks securing loans hardly changed. As a result, while there was only a slight difference between the proportion of blacks and nonblacks who received loans in 1981, the percentage of blacks with loans was almost twice that of nonblacks in 1985. Hence, it can be concluded that, unlike nonblacks, blacks have increasingly been going into debt to finance graduate or professional education. Unlike other forms of aid, a higher percentage of nonblacks than blacks received campus-based student employment. While the percentage of blacks getting such aid remained relatively constant at the

9-10 percent level, the proportion of nonblacks obtaining this assistance rose steadily from 15 percent to 21 percent during this period.

Conclusions

The data presented in this paper suggest that cuts in the availability of federally-funded grants and scholarships during the last several years have had a sharp impact on the way Maryland's black students are paying for their college education. The number of black undergraduates who received grants fell far more steeply than did the black enrollment rate. Likewise, there was a steady decline in the proportion of all black undergraduates who obtained grants. At the same time, the number of blacks with loans rose along with the amounts being borrowed. The median debt incurred for education-related expenses by blacks soared between 1983 and 1985. This practice seems to have followed in graduate and professional school. Unlike nonblacks, an increasing number of blacks have been turning to loans to finance their advanced education. Blacks apparently are not reluctant to go into debt to finance college.

The trends reported in this paper are limited to a five-year period in a single State and cannot be considered necessarily indicative of financial aid patterns elsewhere. However, other studies have shown increased reliance on loans by blacks. Research conducted by the United Negro College Fund and the National Association of Independent Colleges and Universities found that the percentage of black students who assumed loans soared from 5 percent in 1980 to 46 percent in 1986. In any case, the decline in the use of grants by black students in Maryland and their corresponding dependence on loans could negatively affect their access to college and their ability to complete their studies if they do enroll. Accumulating large amounts of debt also could have particularly adverse economic consequences for these students.

Although research findings have not been consistent, certain types of financial aid — scholarships or grants, work study jobs, and part-time employment on campus—seem to contribute positively to college persistence[5]. Grants and scholarships, especially those financed by the federal government, have been especially relevant in maintaining and increasing minority student enrollment. This is because grants and related types of assistance have been the main tool by which minority students have reduced the "net cost", or "out of pocket expenses", of their college education[6]. There would be little debate among financial

aid administrators that the availability of grants and scholarships have enhanced black student access to and retention in college.

Grants, or the lack of them, also can affect a student's choice of an institution. Low-income students, who have limited funds for college, are restricted in their choice of campuses if they are required to finance their education on their own. As a consequence, white students apparently have a greater choice of public and private colleges than do black and other minority students[7]. Grants address this imbalance by making it easier for financially disadvantaged students to pick from a wider pool of campuses. This, in turn, may increase the prospects that these students will succeed in college. There is substantial evidence suggesting that a student's college choice can have enormous impact on his or her persistence, personal development and employment prospects[8].

In contrast, while loans may make it possible for a greater number of black students to matriculate, they may lessen their chances of graduation. Loans, with the possible exception of small amounts of indebtedness, actually undermine persistence[9]. Hence, the increasing attractiveness of loans among black students in Maryland poses a problem for college administrators seeking to reduce attrition. Cutbacks in the availability of grants make it easier to understand the popularity of loans among black students, especially since the parents of many black students may not be in a position to provide sufficient monetary support. But loans represent a financial siren, as extra indebtedness can lead to insurmountable loan obligations after graduation and possibly to economic hardships and ultimate default. The surveys of baccalaureate recipients at Maryland public campuses have suggested that blacks may face a more difficult time repaying loans because they tend to have higher unemployment rates than nonblacks and those who do find full-time work typically earn less. But even if black students deliberately avoid snaring themselves in unrealistic debt situations, the fear of borrowing too much can intimidate them into redesigning their educational plans, cutting back on the number of courses taken, and even leaving college altogether[10].

Perhaps the most disconcerting aspect of this study is that the decline in the number of black undergraduates receiving grants and scholarships coincided with a rise in the number of nonblacks obtaining these awards. This resulted in higher average awards for blacks who received these types of aid, since the total dollar amounts for grants did not change and those for scholarships increased. But this raises the prospect that some eligible blacks are not applying for certain kinds of

assistance or that they are applying and are being denies. That the proportion of all black undergraduates with grants declined between 1981 and 1985, while there was no change in the percentage of nonblacks with grants, seems to strengthen these possibilities.

While the explanation for these trends are subject to speculation, several studies have suggested factors that may inhibit low-income black students from applying for need-based grants[11]. These include complexity of the student financial aid system, family circumstances, inadequate high school counseling for low-income urban students, and the reluctance of some colleges to recruit in these areas.

Some students may be impeded by the paperwork requirements associated with the aid program. The forms required by the various layers of government and by institutions are often complicated and written in technical language. Application deadlines, which can vary among the different governmental levels and among colleges, may baffle some. Also, the standards for receiving Pell Grants have been tightened in recent years, and students who fail the eligibility for these awards are often denied state and institutional help. Students may find it easier just to apply for loans.

Family unfamiliarity with financial aid programs and procedures may handicap some black students. Most of the parents of low income black students probably have not been to college or do not have other children in college. This is likely to affect the knowledge they have of aid programs—and that of their offspring[12]. Further, many low-income families may lack adequate records and may be loather to reveal their financial history. As a consequence, application forms may contain errors and omissions which could lead to automatic rejection. Some parents may discourage their children from submitting an aid application because of fear that the additional funds could jeopardize other assistance the family is receiving.

Counselors at urban high schools often do not have the resources, human or monetary, to engage in serious financial aid advising with students as do their counterparts at more prosperous schools. Most high school and public libraries do not carry applications for Pell Grants. And many colleges do not actively seek low-income students from inner city communities and, as a result, little information is made available about the institution's financial aid awards.

A number of steps could be considered to increase the number of black students in the State who receive Federal grants. These include

streamlining the application process, improving written communication to students, expanding and improving counseling services, developing a mass media advertising campaign aimed at reaching minority students, creating a telephone "hot line" to dispense financial aid information, and creating a fund to support the development of innovative techniques for reaching black students with information about financial aid opportunities.

Any of these efforts could prove effective in increasing the number and percentage of blacks who receive Federal grants; there actually has been no real decline in the number and proportion of black students in Maryland who have obtained State and institutional funded scholarships or grants. The sharp increase in the reliance of black students on loans seems to be part of a national trend and is not unique to Maryland. Yet, the findings of this paper suggest that remedies need to be undertaken to insure that all students who are eligible for financial aid awards select this option before paying for their college education with borrowed dollars.

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Section II

Understanding and Addressing Student Loan Defaults

Understanding and Addressing Student Loan Defaults

Abstracts

The Operation of The Guaranteed Student Loan Program in Minnesota, 1977-1985, *Saul Schwartz and Sandy Baum*

This study used the "dump tapes" to study debt levels and default rates in the Guaranteed Student Loan Program in Minnesota. The findings indicate that both borrowing levels and default rates differ considerably at different types of institutions. Average debt levels are below $3000 for students at two-year schools, but close to $5000 for those in private four-year schools and over $6000 for graduate and professional students. Default rates are about twice as high for students at two-year institutions as for those at four-year institutions. There is some indication that default rates are falling over time, but both data inadequacies and the long lifetime of individual student loans limit the precision of the results. Minnesota residents attending out-of-state schools. This represents slightly more than 3 percent of the $46 billion lent nationwide.

The Reduction of Student Loan Defaults in New Jersey, *Lutz K. Berkner*

Default rates and annual default volume in the New Jersey GSL program increased steadily between 1981 and 1984, and then began to decline. The initial increase in defaults reflected the sharp rise in loan volume three years earlier, an increasing proportion of proprietary school loans, and the reduction of the "grace" period from nine to six months in 1981. The reduction in defaults after 1984 resulted from a combination of factors: the establishment of default prevention programs at New Jersey schools; regulatory changes which increased the length of the delinquency period by two months; the implementation of a program to audit New Jersey schools with the highest default rates; and a sharp reduction in annual loan volume as national guarantors expanded operations in New Jersey, taking over the bulk of guarantees at proprietary schools — including most of the schools with the highest default rates. A profile of defaulter characteristics confirms the results

of previous studies: defaults are concentrated among low-income students, especially at proprietary trade schools. College student defaults are concentrated among low-income drop-outs who have borrowed only one loan. Repayment patterns show that nearly half of all defaulters repay their defaulted loan amount within ten years.

* This paper is part of the New Jersey Default Task Force Report, May, 1988, which includes the appendices referenced in the text.

Toward An Understanding of Why Defaulters Repay,
Marilyn Pedalino and Cynthia Chopick

By following up on the hunches of veteran collection practitioners and guaranty agency administrators, an inductive study was design to better understand why some people repay their defaulted student loans.

Persistence and telephone contact between collector and defaulter appeared to be the most effective techniques in motivating the sample defaulters to repay. Calling defaulters at work seemed to encourage repayment.

The apparent motivations or reasons for repayment emerging from this exploration include:

- effective telephone communication
- parent's paying the debt
- credit restriction
- IRS offset

Two findings were surprising:

- the size of balance due and the number of payments these individuals made before paying in full did not appear to be related, and
- although those who never made payments before defaulting had higher loans and took longer to make the first payment, they ultimately paid more quickly than those who had been paying prior to default.

Student Loan Defaults: One State's Approach, *Robert Former*

The Colorado Student Loan Program has initiated several measures to reduce student loan defaults while maintaining access to postsecondary education. Many of these measures came from recommendations by the Colorado Default Prevention Task Force consisting of various participants in the student loan process. Accurate and timely information can help prevent student loan defaults. To better inform the student about the responsibilities which come with borrowing, the Colorado Student Loan Program has produced a default prevention video, bought television and radio commercials, and operates a Repayment Hotline.

Identification of High Risk Borrowers, *Dr. Richard H. Wedemeyer*

Nineteen variables were used from the Guaranteed Student Loan Application and the student's transcript to identify the variables which are most predictive in classifying the student into a high or low risk group. The discriminant function was used in a stepwise manner. Estimated financial aid and the adjusted gross income were the two most predictive variables. Once high risk borrowers are identified, counselors can discourage these students from borrowing and to encourage them to obtain jobs in order to reduce the default rate below twenty percent.

The Operation of the Guaranteed Student Loan Program in Minnesota, 1977-1985

Saul Schwartz
Tufts University Medford, MA
Sandy Baum
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This report describes the Guaranteed Student Loan (GSL) Program as it operated in Minnesota from 1977 to 1985. We focus specifically on two aspects of the GSL program: default rates and total debt accumulated by individual students. Both of these areas have been the subject of considerable concern in recent years as loan volume has grown rapidly and as the costs of loan default have become an increasing share of federal appropriations for the GSL program.

What appears here is an abridged version of the report. Among other things, detailed tables have been omitted. A complete version of the report is available from the authors or from Gerry Setter at the Minnesota Higher Education Coordinating Board.

Between 1977 and 1985, the GSL program provided almost $1.5 billion in loans to students at Minnesota institutions (or to Minnesota residents attending out-of-state schools). This represents slightly more than 3 percent of the $46 billion lent nationwide over the same period. Mirroring the national pattern, the GSL program grew rapidly in Minnesota between 1977 and 1985. Borrowing in 1981 was ten times the 1977 level. After GSL eligibility requirements were tightened in 1981, borrowing dipped slightly. But by 1983, loan volume in Minnesota exceeded the 1981 level and it has grown steadily since.

Postsecondary education in Minnesota takes a variety of forms. About 80 percent of Minnesota's students attend public institutions. The five campuses of the University of Minnesota system enrolled 26 percent of all full-time postsecondary students in Minnesota in the fall of 1985. The state university system, consisting of seven four-year institutions, enrolled about 20 percent of postsecondary students. Vocational training, which reached about 23 percent of postsecondary students in 1985, is provided by an extensive set of public technical institutes. Community colleges, spread across the state, enrolled approximately 10 percent of postsecondary students.

Despite the central role of public education in Minnesota, there is an active private sector consisting of a number of prestigious four-year schools as well as an array of private two-year schools, proprietary schools (including schools of cosmetology and business technology) and hospital-based schools of nursing and medical technology.

Because of the wide assortment of institutions in Minnesota, we provide a description of the GSL program by type of school. For students who borrowed to finance only their undergraduate educations, results are presented for each of six different institutional types: technical institutes; community colleges; state universities; University of Minnesota system; private four-year colleges and universities; and private two-year, proprietary and hospital-based schools.

All graduate/professional students, regardless of the school they attended, are treated as a distinct group since their circumstances are markedly different, on average, from those of undergraduate students.

To study the GSL program in Minnesota, we used the "dump tape" data which are provided by all guarantee agencies to the U. S. Department of Education on a semi-annual basis. We categorized all of the records by institutional type and by the year in which the last loan was approved.

Levels of Borrowing

In principle, we would like to capture two distinct concepts relating to loan levels. First, we would like to know how much was borrowed by each individual over the course of his or her postsecondary career (the cumulative amount disbursed). Second, for borrowers who are no longer in school, we would like to know the amount that they currently owe; this amount would be smaller than the amount disbursed by the amount repaid, but larger by the amount of accrued interest. However, only the cumulative amount disbursed is available on the dump tape.

Over the 1977-85 period, the technical institute sector had the largest number of borrowers; about 22 percent of all loans were made to students at technical institutes. But the fastest growing sector was the University of Minnesota system, where the number of borrowers was ten times larger in 1985 than in 1977. With the exception of graduate and professional students, all institutional types showed steadily

growing participation in the GSL program over the period studied.

Average cumulative debt levels in Minnesota have been rising over time. The rate of increase is different, however, for two-year and four-year schools. For two-year schools, average debt increased more slowly than tuition levels. For two of the three types of four-year schools, by contrast, borrowing increased faster than tuition. The exception is state universities where average debt levels rose almost as fast as tuition. In 1985, average debt levels ranged from $2617 for students at technical institutes to $4667 for students in private four-year colleges and universities and $6214 for graduate and professional students. In 1977 and 1978, the gap between cumulative debt levels at the two and four-year schools was relatively small, but since debt levels grew at a slower rate in the two-year schools than in the four-year schools, the gap has increased considerably over time.

It has been commonly assumed that the average debt accumulated by defaulters is less than the average debt accumulated by those in good standing. The basis for that assumption is that defaulters tend to spend less time in school. This pattern does emerge from our data, with average debt levels for defaulters typically about 75 - 90 percent of the debt levels for all borrowers.

The problem of heavy cumulative debt levels is largely a problem facing students at four-year schools. In 1983, for example, roughly 5 percent of all those who borrowed to attend two-year institutions had cumulative GSL debt levels above $5000. By contrast, between 25 percent and 40 percent of students at four-year schools had cumulative debts greater than $5000. 10 - 20 percent of undergraduate borrowers had debt levels greater than 7500 in that year less than 10 percent had borrowed over $10,000, but the proportion in that category is increasing over time. The proportion of graduate students borrowing more than $10,000 is between 15 percent and 20 percent in recent years.

Default Rates

The major policy question which drive our concern about the GSL program are whether cumulative debt levels are so high that they imperil the economic welfare of borrowers in repayment and whether default rates are so high that restrictions should be placed on the GSL eligibility of some institutions or some students. Most discussions of these two questions refer to cumulative debt levels and default rates at a

single point in time. The GSL program, however, operates over a long time span. For example, individuals who borrow in their first year of college and start repaying the GSL five years later (six months after graduating from a four-year program) might not finish repaying the loan until 16 years after the money was disbursed.

Of the roughly 10,000 individuals in Minnesota who last borrowed from the GSL program in 1977, more than 50 percent had paid their loans in full by 1986. Virtually none of the borrowers whose last loans were approved in 1977 were still in deferment in October of 1986. When we look at 1977 loans from the perspective of 1986, nine years later, we see that almost 25 percent of GSLs are still in repayment and are still "at risk" of default. Although most of those who default do so three, four or five years after their last loan was approved, 25 percent of the 1977 loans classified as in default in 1986 were not classified that way until 1983 or later.

The fact that many GSL loans are "alive" for such a long time creates a number of problems in interpreting the available data. The most important problems occur in the context of measuring default rates. In principle, there is a "true" default rate for any cohort of borrowers. In any given year, a certain volume of GSL loans are disbursed. At some point in the future, fifteen to twenty years after disbursement, all of those loans will be either paid in full, in default or deferred because of death or disability. The true default rate will be the ratio of dollars defaulted (claims paid) to dollars originally lent. The majority of GSL loans have been disbursed in the recent past, so the true default rate for most of the dollars provided by the program will not be known until the mid-1990's at the earliest.

In addition to preventing us from measuring outstanding debt, the unavailability of data on outstanding debt levels limits our ability to accurately measure default rates. We calculate default rates according to the following procedures. In the numerator, we sum up the cumulative amounts disbursed to those who have defaulted on their most recent loan. The denominator is the sum of cumulative amounts disbursed to those whose most recent loan is in repayment, paid in full, in default, or deferred because of death or disability. Default rates are calculated separately for each institutional type and each year of first approval. This method tends to over-estimate default rates, since some of the amount disbursed to defaulters was repaid before they defaulted. Post-default collections are also omitted. In addition, it is possible that an individual who defaulted on his or her most recent loan is in fact in good standing on other loans. We are unable to make this distinction

with our data and must count total borrowing in the defaulted amount.

There is a consistent pattern in default rates across types of schools. Students at two-year schools — technical institutes, community colleges, private two-year colleges and proprietary schools — have default rates which are considerably higher than the default rates for students at the four-year schools. In 1981 and 1982, for example, the default rates at the two-year schools are at least double those at the four-year schools; the default rates at the two-year schools are all over 20 percent while the default rates at the four-year schools are 10 percent or under.

This result should not be over-emphasized because of the different timing of repayment (and default) at two-year versus four-year schools. At a single point in time, loans to students at two-year schools have been in repayment longer than loans to students at four-year schools so that the number of two-year defaulters would be likely to appear higher even if the underlying true default rates were the same. The disparity between the default rates is so large, however, that timing is unlikely to account for the entire difference.

Default rates appear to be falling, even when an attempt is made to control for the amount of time which has elapsed since the loans were made. For each year between 1977 and 1980, we calculated a set of "constant repayment" default rates that excluded borrowers who came into repayment more than four years after their date of last approval. That is, relatively late maturing loans are excluded from the denominator of the default rates. The system-wide "constant repayment default rates are:

1977	28.7%
1978	27.2%
1979	22.7%
1980	19.2%

We also examined default rates for each cohort five years after the date the last loan was issued. That is, we calculated the default rate for 1977 loans as of 1982 and compared it to the default rate for 1978 loans as of 1983. These calculations showed declining default rates for community colleges (from 29 percent in 1977 to 23 percent in 1980), the University of Minnesota (from 14 percent to 11 percent), and for technical institutes (from 25 percent to 22 percent). Proprietary schools showed a slight increase, from 21 percent to 23 percent.

Conclusions

In this status report on the GSL program in Minnesota, we have focused on two measures — average cumulative debt levels and default rates. These variables were calculated for each type of institution and for each year, 1977-1985.

In reporting on the operation of the GSL program, it is critical that the long-term nature of the program be kept in mind. At any point in time, many borrowers are still in deferment, which means that cumulative debt levels, for any given year of last disbursement, are not yet final. Furthermore, in calculating default rates, we must keep in mind that those who are sill in deferment have not yet been at risk of default and those who are in repayment are still at risk of default. True default rates cannot be known until 15-20 years after the date of disbursement. Finally, it can take more than two years before a loan is declared in default even if no payment is ever made on that loan. This means that default rates for the most recent two or three years will always be greatly underestimated.

The report on average cumulative debt levels over time is interesting because very little is known about average cumulative debt levels. The primary finding of interest, aside from a first look at the levels themselves, is that average cumulative debt levels are rising faster than tuition levels in the four-year schools but slower than tuition levels in the two-year schools.

With regard to the default rates, we find that there is a substantial difference between students at two and four-year schools, with default rates for those attending two-year schools roughly double those for students at the four-year schools.

While the dump tape data provide us with an invaluable source of information, especially concerning average cumulative debt levels, they are flawed by the omission of key information concerning the dates of loan maturation and the amount which has been paid on GSL loans. Any future study would be considerably improved if access to that information could be provided.

The Reduction of Student Loan Defaults in New Jersey

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New Jersey Department of Higher Education

The basic facts are relatively simple: the volume of defaults and the default rates in the New Jersey Guaranteed Student Loan program increased until about 1984-1985, and then began to decline. The reasons for the initial increase and the recent decline, however, are complex and require an understanding of the changes in the New Jersey GSL program, the relationship of defaults to prior-year loan volume, and certain technical details about default rates.

Changes in the New Jersey GSL Program

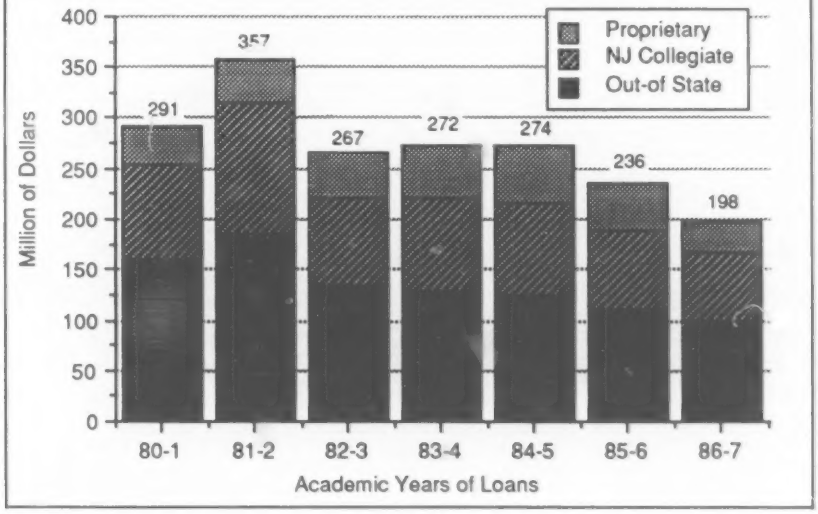
The Guaranteed Student Loan program was established in the 1960's to provide students with a source of loan funds to help finance their education. Because students normally have no credit histories or collateral, the state agencies guaranteed these loans against default in order to attract lenders to the program. The federal government reinsured the loans guaranteed by the state agencies and subsidized the entire interest accrued while the student was in school and a portion of the interest after the student had left school.

Although the GSL program grew throughout the 1970's, there was an enormous increase in loan volume between 1979-81. This was caused by a change in legislation (the Middle Income Student Assistance Act of 1978) which removed all income restrictions on GSL eligibility, followed by a period when commercial interest rates climbed to record highs. GSL loans became available to everyone and with their 7 percent interest rate represented a tremendous bargain to students and their families — and a rapidly growing cost to the federal budget. In order to contain these rising costs, income-based eligibility criteria were reimposed and interest rates were raised to 9 percent effective October 1, 1981. Announcement of the impending restrictions created one last surge in loan applications during the summer and fall of 1981 which made loan volume for academic year 1981-82 the largest in the history of the New Jersey program ($360 million).

There were no major changes in the GSL program regulations during the next six years. College undergraduates and vocational school students could borrow $2,500 per year for up to five years; graduate and professional students could borrow $5,000 per year up. All students with family incomes under $30,000 were eligible; for incomes over $30,000, there was a "need" test which was not as strict as the one applied to other federal aid programs (assets and student savings were not considered).

Total New Jersey loan volume remained relatively stable (at about $270 million per academic year) for three years after the income restriction went into effect. Beneath this stability a major shift was taking place, however. The annual amount borrowed by in-state and out-of-state college students was shrinking (despite rising costs), while the amount borrowed by New Jersey non-collegiate proprietary vocational schools was growing rapidly, from about $25 million in 1980-81 to a peak of $58 million in 1984-85 (Figure 1). This reflected both the success of proprietary schools in recruiting students as well as the slow erosion of middle class college student GSL eligibility through income inflation. (When the $30,000 income restriction was introduced in 1981, New Jersey median family income was about $27,000; in 1986 it was about $36,000).

Figure 1: NJ Student Loan Program Volume Net Dollars Guaranteed For Academic Years 1980-80 to 1986-87



Starting about 1985, the New Jersey GSL program began to feel the impact of a new development. Taking advantage of changes in interstate banking rules, several "national" guarantee agencies with multi-

state operations began to compete actively with the state agencies. Between 1985 and 1987 the majority of state guarantee agencies, including the New Jersey Higher Education Assistance Authority (NJHEAA), experienced large declines in GSL loan volume, while the national guarantors increased their volume from about 5 percent to over 30 percent of the national total. New Jersey loan volume dropped $40 million in 1985-86, and another $40 million in 1986-87. NJHEAA proprietary school loan volume dropped in half during those two years, falling from $58 million in 1984-85 to $29 million in 1986-87.

In addition, Reauthorization (the Higher Education Act Amendments of 1986) introduced a series of basic changes in the GSL program beginning at the end of 1986. First, annual borrowing limits were increased: to $2,650 for first and second year students, to $4,000 for juniors and seniors, and to $7,500 for graduate students. Second, the rules for defining "independent" or self-supporting students were changed so that anyone 24 or older and most graduate students would qualify (eligibility was then based on their own income, not their parents'). Third, all students, even those with family incomes under $30,000, were required to meet a needs test to remain eligible for GSL. Fourth, new and stricter needs tests were applied: through June 1988 the new criteria ("Uniform Methodology") added a contribution from assets and student contribution from summer savings; after June 1988 the new "Congressional Methodology" will be used for all federal aid programs and will require additional contributions from students who earn more than $1,500 annually while in school.

The impact of the first phase of Reauthorization (1987-88) has been mixed. Graduate students have generally benefited from expanded eligibility and higher loan limits. The effect on undergraduates has been more uneven: although average loan amounts have increased for those who continue to be eligible, about 20 percent of the undergraduate borrowers have lost their GSL eligibility entirely. The major impact has been on self-supporting students and middle-income dependent students at the lower cost public institutions. Although Reauthorization has contributed to the reduction of New Jersey loan volume by $30 million in 1987-88, we do not know how much of this is due to further gains by national guarantors. A further decline in loan volume of at least 10 percent is expected in 1988-89 as a result of the new needs test criteria.

Default Volume and Loan Volume

In general, the annual volume (numbers or dollars) of defaults will follow the same pattern as the loan volume about three years earlier. The sharp increase in New Jersey loan volume from 1979 to 1981 was reflected in a rapid increase in defaults from 1982 to 1984; the decline in loan volume since 1984 has resulted in a decline in defaults since 1986. Annual declines in New Jersey defaults are certain to continue for the next few years, reflecting the recent annual decreases in loan volume (Figure 2).

The three-year average lag between loans and defaults is due to a combination of the typical borrowing pattern of students and the regulations of the GSL program. On the average students borrow two GSL loans, usually in consecutive years, which means that they are in school with loans for about 24 months. After they leave school, they are given a six month "grace" period before the loan matures and becomes due for repayment. If they never start paying after the end of the grace period, the lender is required to attempt to contact them for six months before a default claim may be submitted, and then it may take another few months to process and file with the guarantor. Therefore, on the average, about three years have passed between when the first loan was approved and the time that the default claim was paid.

Borrowers at community colleges and many proprietary schools typically remain in school for less than one year, so the average time between loan approval and default is only about two years. The graph of the broad sector distribution of defaults since 1980 shows that the proportion of defaults from the proprietary sector increased rapidly about two years behind the rapid increase in proprietary school loans. In 1986 and 1987 about 50 percent of the student defaults were from the proprietary sector, reflecting their peak year of loan volume through the NJHEAA in 1984-85 (Figure 3).

Defaults Rates

Although default volume generally follows the same pattern as loan volume about three years earlier, default rates are only based on those loans which have become due for repayment. Only after a student has left school and come to the end of the "grace" period when the loan

Figure 2: New Jersey Annual Loan Volume (Millions $)

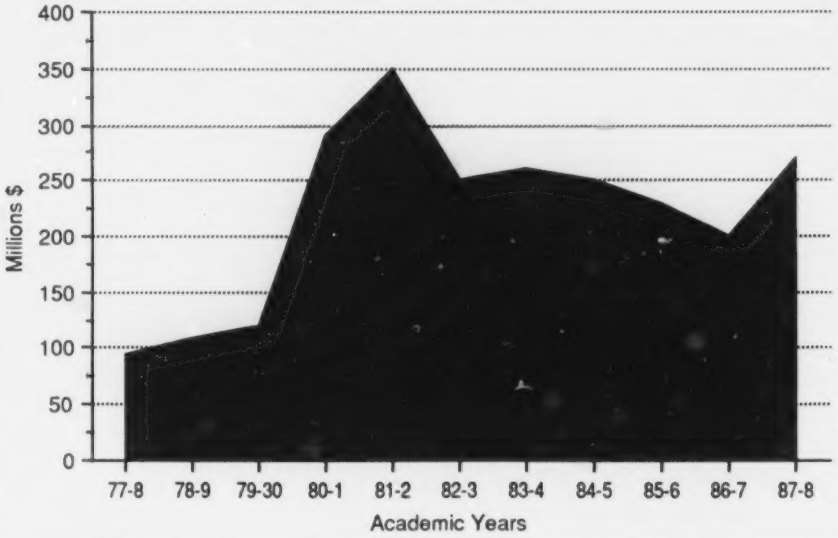


Figure 3: Default Volume Lags Three Years Behind Loan Volume
New Jersey Annual Default Volume (Millions $)

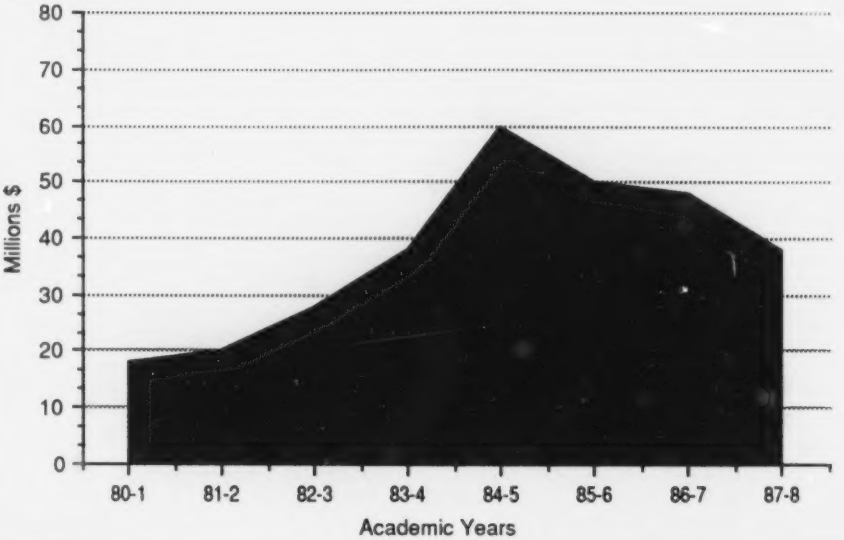


Figure 4: New Jersey Guaranteed Student Loan Program Number of Loans by Sector 1980 to 1987

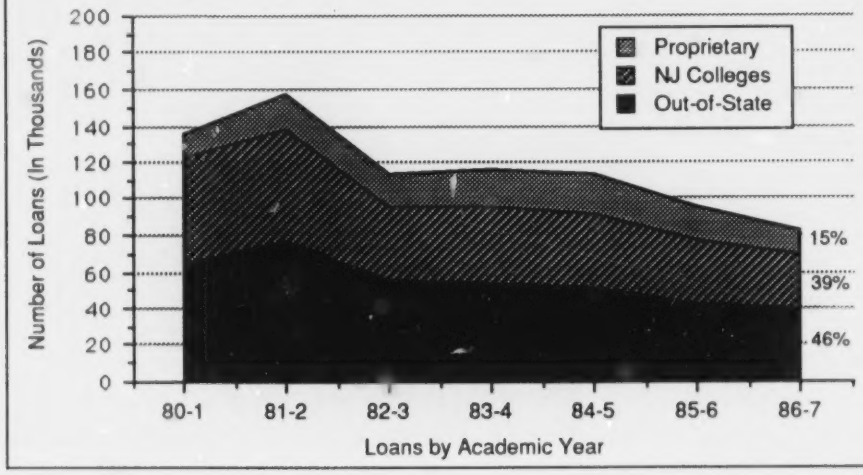
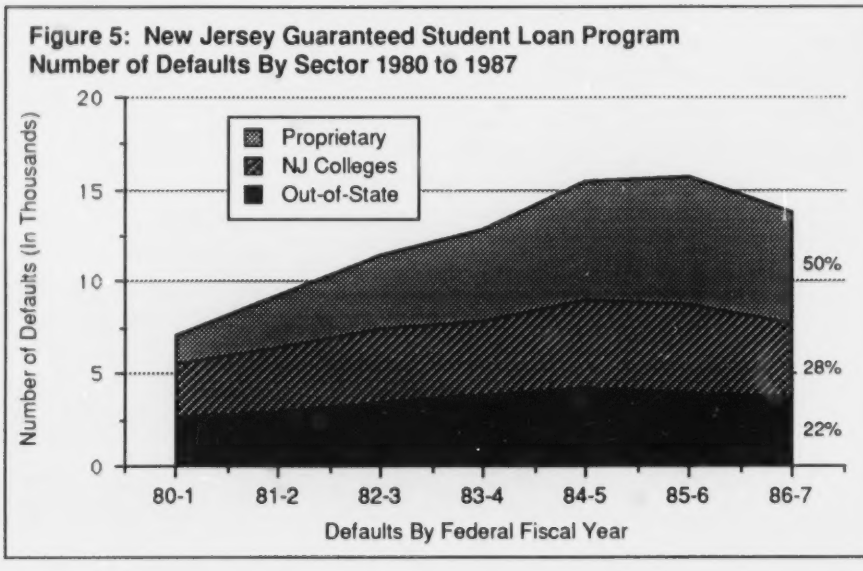


Figure 5: New Jersey Guaranteed Student Loan Program Number of Defaults By Sector 1980 to 1987



becomes due for the first payment is the student "at risk" of default. About half of the defaults occur because the borrowers never start to make payments; the other half start their payments, but fall behind and become seriously delinquent. A time line showing the critical events affecting the status of a loan from the time the student leaves school until a default claim can be filed is in the appendix.

The fact that the number or dollar volume of defaults goes up does not mean that default rates, the proportion defaulting, have also gone up. In fact, New Jersey default rates did increase between 1980 and 1984. These increases were caused in part by changes in federal and state GSL program regulations. In October 1981, the "grace" period was cut from nine months to six months for students taking out their first loans. This meant that students had even less time to find a job and establish a steady income before the loan payments started. In the three years after 1981 the proportion of loans becoming due for repayment after a nine-month grace period dropped rapidly. Each year a larger proportion of the loans had to start repayment within six months, and it is not surprising that this caused default rates to increase, especially among students who had dropped out of school.

Most "default" rates are actually "claim" rates, because they are based on the number of default claims for reimbursement filed by lenders in a given year, rather than the number of loans that were declared legally in default that year. In 1984 the NJHEAA adopted stricter claim submission regulations which required lenders to file their default claims within three months after the default was declared as a legal condition. Before this lenders were averaging more than one year in processing default claims. These regulations caused a large increase in the number of claims received during the next two years as lenders processed defaults more quickly, and contributed to increases in the annual default rates in 1984 and 1985.

In 1986, on the other hand, federal regulations lengthened the amount of time that lenders were required to pursue delinquent loans from 120 to 180 days, so that the date of the legal condition of default was defined as coming two months later. This has contributed to the recent decline in default claims and default rates. In addition, in 1987 there was a great deal of uncertainty about the implementation of new regulations concerning "due diligence" procedures for lenders pursuing delinquent loans. To be on the safe side, guarantors interpreted the new rules strictly and rejected large numbers of default claims received from lenders. This also contributed to a temporary decline in the default rate, because many more defaults occurred than were

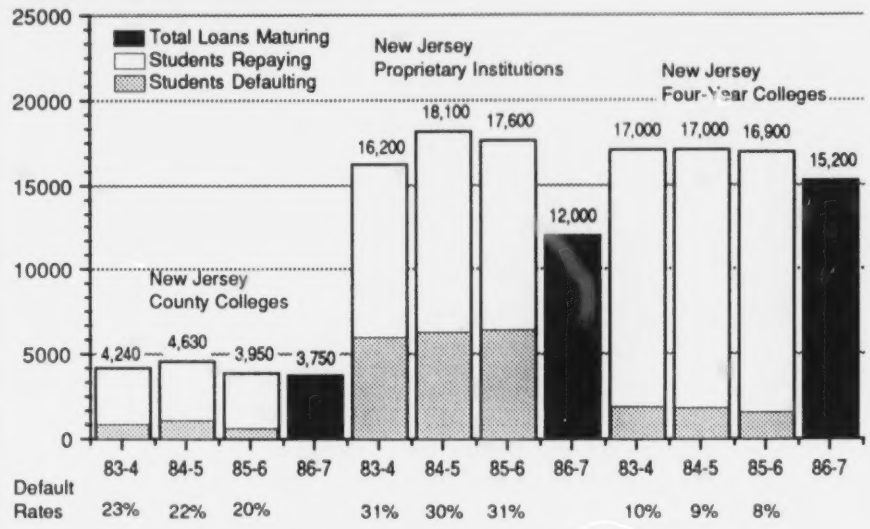
accepted as claims. In 1988 the federal "due diligence" regulations were clarified and liberalized, so there may be a surge in defaults in the next few months as the backlog of rejected claims is reviewed and processed by the guarantors.

There are many different types of default rates and many different ways to calculate them. Some measure the percentage of students in default, others measure the dollar amount in default. The time period used can vary: annual rates measure the percentage defaulted in a twelve month period, cumulative rates measure the percentage that has ever defaulted. The longer the period of time covered, the higher the rates — normally cumulative default rates are three times as high as annual rates. The NJHEAA annual dollar default rate, which is used by the federal government to monitor guarantee agency performance, averaged between 4.3 percent-4.9 percent until federal fiscal year 1987 when it fell to 3.4 percent, partially for the reasons mentioned about (Figure 4). The cumulative dollar default rate — the percentage of all loan dollars that have ever defaulted since the beginning of the program — has remained fairly stable at about 13 percent. Cumulative rates reflect the entire history of the GSL program and are not very sensitive to recent changes.

In 1985 the NJHEAA started using annual student cohort default rates which measure the default behavior of a group of students whose loans become due for repayment during the same twelve month period (Appendix D). The New Jersey cohort rates were based on the legal date of the default condition, rather than the date the claim was filed by the lender, in order to eliminate the effect of changes in claim processing time. These student cohort default rates are a good way to measure actual changes in default behavior and to test whether changes in institutional procedures have had positive effects. They showed that default rates were rising after 1981 as more loans with shorter grace periods became due, and that there were much greater increases in default rates in the proprietary school sectors than in the collegiate sectors. The cohort of borrowers entering repayment in 1984-85 and 1985-86 started to show the first declines in default rates (Figure 4).

In November 1987 the U. S. Secretary of Education announced that the Department of Education was calculating two-year student cohort default rates to evaluate the GSL program of educational institutions. At that time the Secretary released institutional rates based on federal data for the cohort of students who entered the repayment period between October 1, 1984-September 30, 1985 and for whom a default

Figure 6: New Jersey Guaranteed Student Loan Program Students Defaulting in the First Two Years After Entering Repayment By Federal FY



Percent of borrowers defaulting within two years after loans become due for repayment. FY86-87 not available until Oct. 1988.

claim had been filed by September 30, 1986 (i.e., within the next two years). Plans were announced to apply sanctions to any institution whose second-year cohort default rate was over 20 percent in federal fiscal year 1990. (That is, the default rate in September 1990 of those students whose loans became due for repayment between October 1, 1988 and September 30, 1989. This will include most students graduating or leaving school in the spring of 1988).

A few weeks after the Secretary's announcement, the Office of Student Loans provided all New Jersey schools with the federal rates for each annual cohort of students entering repayment since 1982-83. Because the federal student cohort rates are based on claim dates (rather than the legal date of default), they are not as reliable for measuring trends in behavior during the last few years when changes in "timely filing" and "due diligence" regulations first shortened and then lengthened claim processing time. Nevertheless, the basic trends and the second-year default rate levels of the New Jersey and the federal method were similar (Figure 5). The delays caused by recent regulatory changes should have been worked out by October 1988, and the federal cohort default rate should provide a relatively reliable measure of the default behavior of students who recently left a school.

The Role of Schools

The fact that the default rates of students formerly enrolled in a school can be reliably measured does not address the issue of the extent to which schools are responsible for the defaults of their students. Schools cannot prevent an eligible student from borrowing, even if the student appears to present a high risk of default, and such students may have no other sources of financial aid available. Nor are schools a legal party in the loan agreement as in the Perkins (formerly NDSL) loan program.

The NJHEAA addressed the issue of school responsibility for defaults in a Compliance Plan, adopted in 1986 following a preliminary GSL program review of New Jersey schools with very high default rates. The Compliance Plan established audit criteria in four areas, in addition to high default rates, where noncompliance indicated serious deficiencies in the proper administration of the GSL program. The areas of audit concerned included inadequate refund policies and procedures, failure to provide timely notification to lenders of student enrollment status changes, inadequate maintenance of documentation, and high student withdrawal rates. Thirty schools have been reviewed or are scheduled for program audits according to these criteria. As a result of these reviews, several schools have been suspended or limited from participation in the New Jersey GSL program, while others have submitted plans for improving their operations in response to the audit findings.

Many of the twenty-seven New Jersey proprietary schools selected for audit by the NJHEAA because of their high default rates, including those limited or suspended from the program, are now using national guarantors for their student loans. The U. S. Department of Education does not require other guarantee agencies to recognize NJHEAA sanctions. The rapid reduction of NJHEAA loan volume since 1985 from the schools with the highest default rates has been reflected in the overall decline in New Jersey program defaults. We do not know whether the default situation at these schools has improved, or whether the problem has merely been transferred to other guarantors, since the U. S. Department of Education does not provide agencies with statewide data.

The colleges and proprietary schools which continue to use the NJHEAA as the primary guarantor for their student loans have been participating in formal default prevention activities at least since 1984,

when the NJHEAA provided schools with funds for programs to reduce defaults. The decline in the default rates of the student cohorts whose loans became due for repayment in 1984-85 and 1985-86 indicates that these efforts have had some success. The initiatives and recommendations in this report are intended to maintain the momentum of the recent decline in New Jersey program defaults.

Characteristics of Defaulters

Although the situation will vary according to the type of institution, the general characteristics of defaulters at New Jersey schools follow a common pattern that has been confirmed in many other studies.

- Defaulters come from low-income families

  Three-quarters of the defaulters had family incomes under $15,000 when they took out their loans.

- Over half of the defaulters are self-supporting students

  Most self-supporting or "independent" students have very low incomes, and include most of the older, non-traditional students who often have poor educations backgrounds.

- Three-quarters of the defaulters spend one year or less in school and often do not complete their programs

  Over half of the defaulters attended proprietary vocational schools offering programs of less than one year; a large proportion of these did not complete the programs. Among college undergraduates, nearly half of the defaulters attended for one year or less.

- Defaulters do not borrow large amounts

  Over three-quarters borrowed less than $3,000. Because most defaulters spend one year or less in school, they usually have taken out only one loan.

All of these characteristics are closely related. Low-income students are more likely to have poor educational backgrounds, more likely to attend open access community colleges or proprietary vocational

schools which offer shorter programs, and more likely to leave school without completing the program but carrying with them a student loan debt for which repayment must begin within six months. One of the basic problems is summarized in Figure 6, which shows that there is a striking similarity of the income distribution of college defaulters and the income distribution of all proprietary school borrowers.

The same patterns emerge in terms of default rates. The rates shown are five-year cumulative rates which summarize the data for this particular population of students and allow for comparisons among student characteristics. Five-year default rates have no particular significance, but the level of these rates is usually similar to the federal two-year cohort default rates.

The default rates show the same patterns discussed above. About one-third of the borrowers with family incomes under $15,000 default, compared to only 5 percent of those with incomes over $30,000. About one-third of those who are in school for one year or less default, compared to 8 percent of those who complete four years of college. The concern about large debt burdens leading to increased defaults is not supported by the evidence: only 6 percent of those borrowing over $6,000 default, compared to one-quarter of those borrowing less than $3,000 (Figure 7). Larger debt levels indicate more years of successful completion of higher education; more years of education generally means a lower probability of default.

Appendix B, Sector Comparisons, provides some direct sector comparisons of default rates and borrower characteristics. It is quite clear that schools with higher proportions of low-income borrowers also have higher default rates.

The Role of the Lenders

Although the focus of this report is what schools can do to prevent defaults, it is in fact the lender who has the critical role and responsibility after the student leaves school. The lender must contact the student and establish a loan payment schedule during the "grace" period, meet strict federal "due diligence" requirements for contacting borrowers when payments are delinquent, grant borrowers opportunities for deferments and forbearance, and make the determination that the loan is in default. The NJHEAA pre-claim staff provides assistance to lenders during the delinquency period by also contacting and

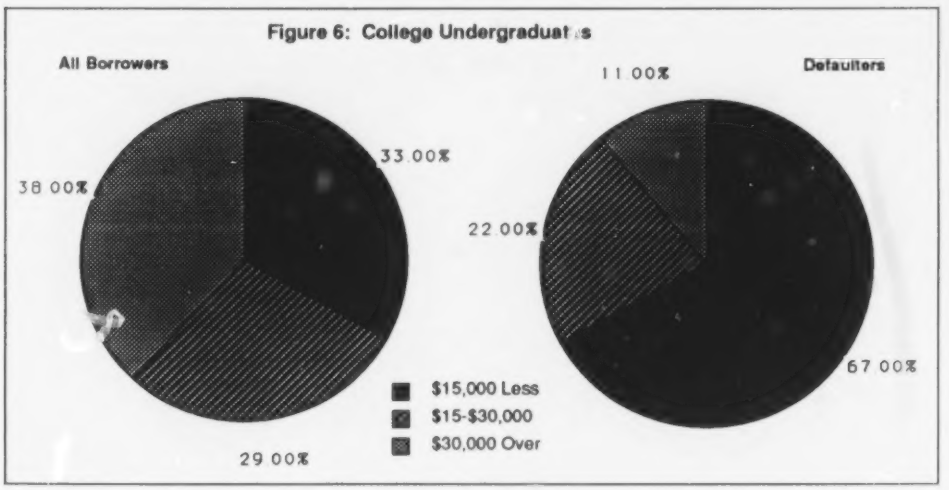


Figure 6: College Undergraduates
All Borrowers
33.00%
38.00%
29.00%
Defaulters
11.00%
22.00%
67.00%
$15,000 Less
$15-$30,000
$30,000 Over

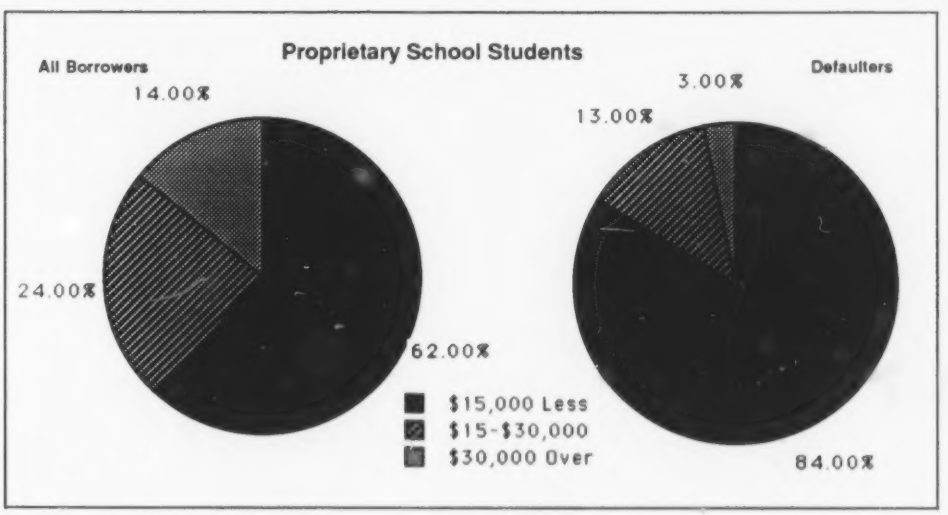
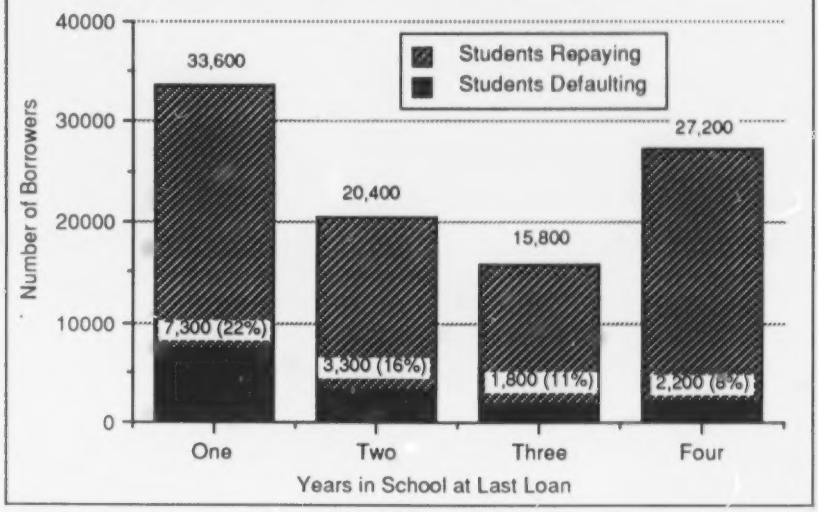
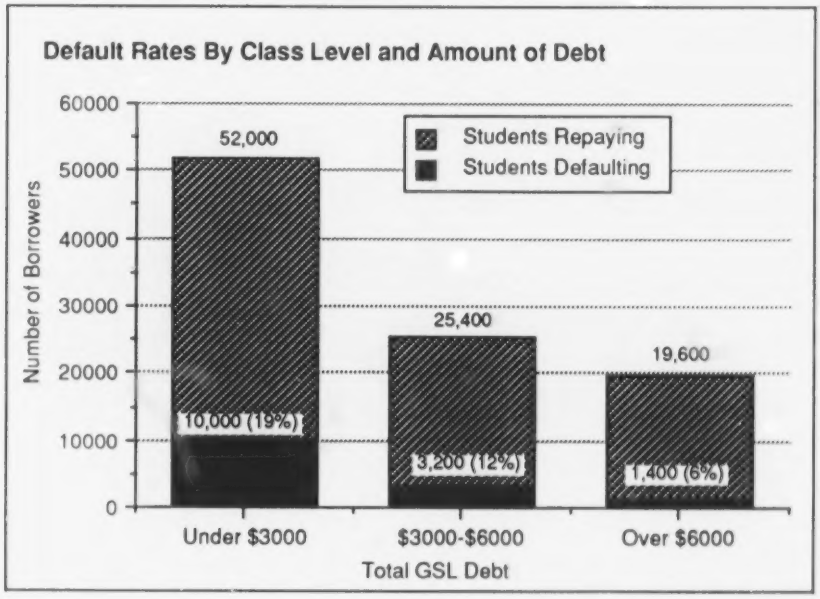

Proprietary School Students
All Borrowers
14.00%
24.00%
62.00%
Defaulters
3.00%
13.00%
84.00%
$15,000 Less
$15-$30,000
$30,000 Over

Figure 7: Default Rates By Class Level and Amount of Debt
New Jersey Undergraduate GSL Borrowers 1983-87



Default Rates By Class Level and Amount of Debt



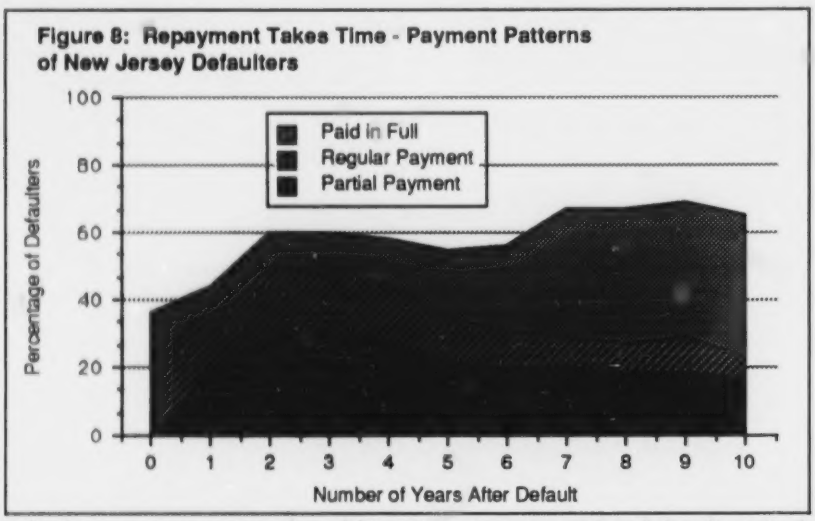
providing information to borrowers with letters and telephone calls. The steps in the process and lender requirements are detailed in Appendix E.

There is a general concern in the financial aid community that many lenders have become too removed from students in the loan process. Most students never have any personal contact with their lender. When the loan is taken out, the entire application process is usually by mail to the central office rather than a personal application at a branch. When repayment time comes, the original lender often no longer holds or services the loan, and students must deal with distant loan servicers or the Student Loan Marketing Association (SLMA) who have taken over the lender's role and responsibility for collecting payments.

We do not know whether the increasingly distant and indirect role of the lenders has contributed to defaults, but is has certainly created new communication problems. Because of the many bank mergers, the use of loan servicers, and the sale of loans to SLMA, the calculation of meaningful lender default rates presents a difficult problem. Studies by the Office of Student Loans have only been able to show that very small lenders have very low default rates, while the default rates of the larger lenders vary within a very narrow range and do not exhibit that large differences found among schools.

Collection Activity and Repayment After Default

After the lender has filed a default claim with the NJHEAA because a student borrower has failed to comply with regulations or make the required loan payments, the NJHEAA attempts to contact the borrower and reestablish payments. In many cases the NJHEAA is successful: the defaulted account goes into repayment and after ten years, half of the accounts are eventually paid in full. If the NJHEAA is unsuccessful in getting the account into repayment or the borrower stops paying, the account may be sent to an attorney for outside collection. The attorneys will make further attempts to collect the debt, which may include litigation. New federal regulations require all defaulted accounts not in repayment within a certain amount of time to be assigned for litigation. Accounts which have been assigned to outside collection are no longer directly handled by the NJHEAA and all payments are forwarded to the attorneys.



Default does not remove the obligation to repay the debt, but it does shift the responsibility for collection from the lender to the guarantor. The default remains on the borrower's credit history for seven years, even if it has been paid in full. Despite this, lenders routinely check with the NJHEAA about the default repayment status of applicants for home mortgages, and they may extend credit if there is a good record of post-default repayment. On the other hand, unpaid accounts that are assigned to outside collection often have a collection fee added to the amount owed (up to 30 percent) and the defaulter may ultimately be forced to pay the increased amount by court order. This is a situation that we all want to prevent.

The repayment status of a defaulted account may change several times if a borrower stops and then resumes payment, but there are some common payment patterns directly related to the age of the account (see Appendix C). The majority of those that defaulted recently (in 1987 or 1988) have still made no payments, since whatever problem caused the default in unlikely to have been resolved in less than a year. For accounts that defaulted two years ago, about one-third are not in regular repayment, one-third are paying intermittently, and one-third still have made no payments. Most defaults that occurred three or more years ago and made no payments will have been assigned to outside collection, and about half of these will be brought into repayment.

Because it takes a long time to pay off a loan, it is not the repayment status of recent defaults but those that defaulted over ten years ago which gives the best picture of the eventual repayment pattern of defaults: about 45 percent have paid the debt in full, 40 percenthave made partial payments, and only 15 percenthave never paid anything.

Who Defaults?
A Profile of New Jersey Student Loan Defaulters

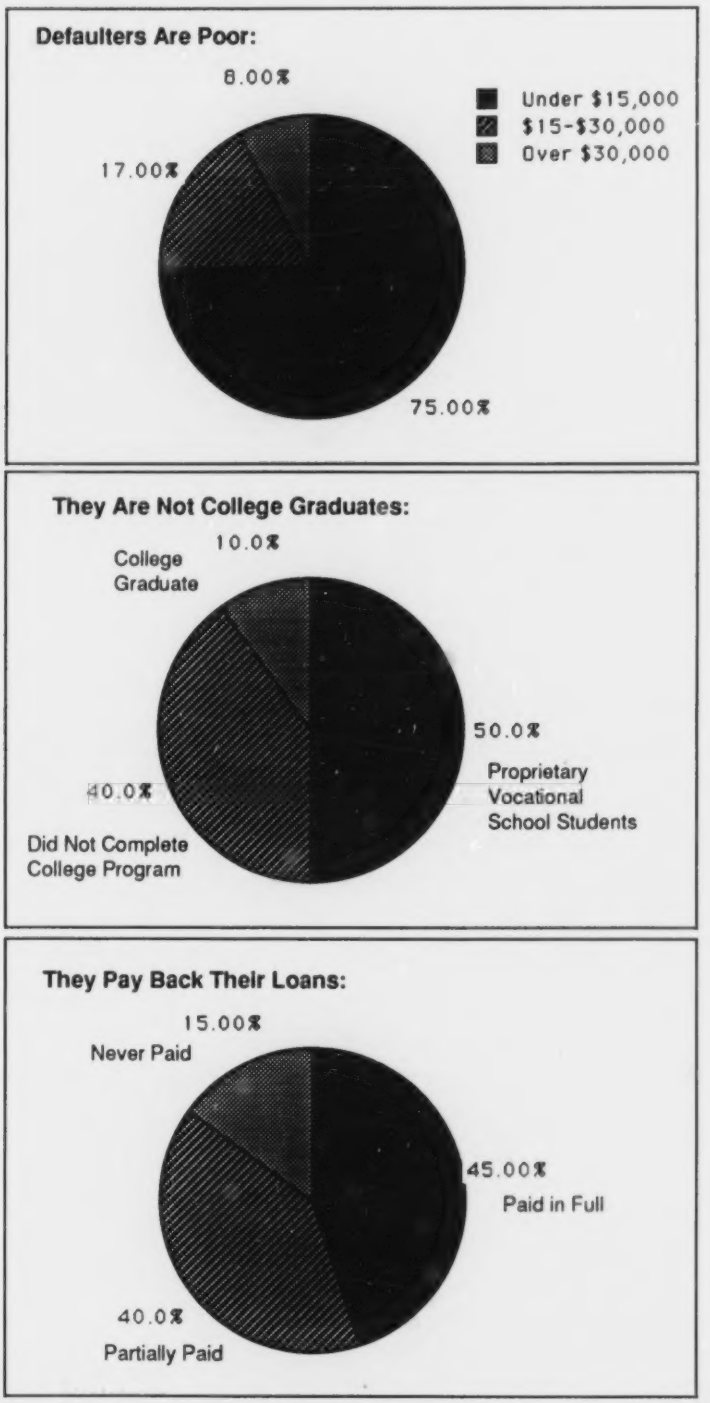


Table 1

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH:LKB

(1) DEFAULT RATES AND INCOME DISTRIBUTION	TOTAL BORROWERS 1983-7 (1)	IN SCHOOL OR GRACE PERIOD DEC 1987 (2)	TOTAL OUT OF SCHOOL 1983-7 (3)	TOTAL DEFAULTED 1983-7 (4)	FIVE YEAR DEFAULT RATE (4)/(3)	ALL BORROWERS				
						INCOME DISTRIBUTION IF KNOWN				TOTAL KNOWN
						UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	
	N	N	N	N	RATE	%	%	%	%	%
INDEPENDENT COLLEGES	37,920	11,898	26,022	3,183	12%	27	29	44	.	100
PUBLIC UNIVERSITIES	31,175	10,169	21,006	2,287	10%	30	27	44	.	100
STATE COLLEGES	41,719	12,164	29,555	4,147	14%	32	30	38	.	100
COUNTY COLLEGES	26,197	5,706	20,491	5,083	24%	46	31	23	.	100
TRADE & TECHNICAL SCHOOLS	23,304	3,696	19,608	4,528	23%	50	31	20	.	100
BUSINESS & SECRETARIAL SCHLS	35,859	4,380	31,479	12,434	39%	66	21	13	.	100
COSMETOLOGY SCHOOLS	14,881	2,268	12,613	5,431	43%	74	19	7	.	100
HOSPITAL & NURSING SCHOOLS	2,547	662	1,885	169	8%	36	37	27	.	100
TOTAL	213,602	50,943	162,659	37,262	22%	44	27	28	.	100
TYPE										
NJ COLLEGE UNDERGRADUATES	137,011	39,937	97,074	14,700	15%	33	29	38	.	100
NJ PROPRIETARY SCHOOLS	76,591	11,008	65,585	22,562	34%	62	24	14	.	100
TOTAL	213,602	50,943	162,659	37,262	22%	44	27	28	.	100

Table 2

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
UNDERGRADUATE GSL BORROWERS SINCE 1983

SECTOR COMPARISONS

OSA RESEARCH:LKB

(II) DEFAULT RATES WITHIN INCOME GROUPS	TOTAL DEFAULTS				TOTAL OUT OF SCHOOL				FIVE YEAR DEFAULT RATES			
	FAMILY INCOME				FAMILY INCOME				FAMILY INCOME			
	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN	UNDER $15,000	$15,000 $30,000	OVER $30,000	UNKNOWN
	N	N	N	N	N	N	N	N	RATE	RATE	RATE	RATE
INDEPENDENT COLLEGES	1,186	518	311	1,168	5,703	5,833	8,038	6,448	20%	8%	3%	18%
PUBLIC UNIVERSITIES	988	332	181	786	4,729	4,017	6,189	6,071	20%	8%	2%	12%
STATE COLLEGES	1,742	573	325	1,507	7,108	6,055	7,161	9,231	24%	9%	4%	16%
COUNTY COLLEGES	2,693	783	295	1,312	7,249	4,843	3,110	5,289	37%	16%	9%	24%
TRADE & TECHNICAL SCHOOLS	3,118	932	277	201	9,367	5,804	3,512	925	33%	16%	7%	21%
BUSINESS & SECRETARIAL SCHLS	10,518	1,375	338	203	20,783	8,359	3,645	682	50%	21%	9%	29%
COSMETOLOGY SCHOOLS	4,668	554	92	117	9,294	2,295	752	272	50%	24%	12%	43%
HOSPITAL & NURSING SCHOOLS	57	37	21	54	506	550	404	425	11%	6%	5%	12%
TOTAL	24,970	5,104	1,840	5,348	64,749	35,756	32,811	29,343	38%	14%	5%	18%
TYPE												
NJ COLLEGE UNDERGRADUATES	6,609	2,206	1,112	4,773	24,789	20,748	24,498	27,039	26%	10%	4%	17%
NJ PROPRIETARY SCHOOLS	18,361	2,898	728	575	39,960	15,008	8,313	2,304	45%	19%	8%	24%
TOTAL	24,970	5,104	1,840	5,348	64,749	35,756	32,811	29,343	38%	14%	5%	18%

Toward an Understanding of Why Defaulters Repay: An Exploratory Study of Defaulters Who Pay in Full

Marilyn Pedalino, Ph.D.
Cynthia Chopick
Massachusetts Higher Education Assistance Corporation

Background and Purpose

Several states have published studies on why students default and their characteristics: California, Illinois, New Jersey, New York, Pennsylvania, Virginia and Vermont. In addition, national studies have attempted to compare state default rates and to link levels of default with the type of school attended[1]. Merisotis compared default rates in several major, industrial states noting that default appeared to be represented disproportionately among proprietary and two-year public schools.[2] Each of the above efforts tended to focus on characteristics of defaulted loans rather than on the characteristics of defaulters or of repayers.

The GAO sought to describe the loan selection practices and procedures of guaranty agencies in an effort to identify ways of reducing default. One section of this report provides some characteristics of default repayment but offers little insight into the personal characteristics of defaulters and why some repay.

Lee analyzed default rates in relation to several loan and borrower characteristics[3]. He observed that default tends to occur in the early stages of repayment. Default rates were higher for those who attended a proprietary or two-year public school, who borrowed smaller amounts and when the last loan reported was for an earlier academic year. A 1984 study by the California Guaranteed Student Loan Program reports an inverse relationship between the loan amount and the likelihood of default[4]. Lee found that credit union loans had a higher frequency of default. A more recent New Jersey study[5] underscored the important role played by the lender in default reduction.

Wilms et al report significant relationships between default and ethnicity, citizenship status, income, prior education, program of study

and program completion[6]. This study emphasizes that default among proprietary schools has less to do with the institutions themselves than with the students who attend these schools. Davis makes the same point and further asserts that most defaulters are people who cannot afford to repay their loans[7]. He cites the large proportion of first-year loans which become defaults in Pennsylvania, New York and Virginia.

New York is one of the few states that has addressed the characteristics of defaulters who repay their loans[8]. Repayers of defaulted loans tend to have longer work records and to earn more money than those who do not repay. This study notes the greater frequency with which repayers rely on the family to help them meet their loan obligations.

The Massachusetts Higher Education Assistance Corporation believes that understanding why some people repay defaulted loans is as important as comprehending why they defaulted in the first place. The Corporation has begun to explore the possible reasons why some student loan defaulters repay their debts.

- Are there common demographic characteristics among defaulters who repay their loans?
- Are there any specific collection techniques which appear to be especially effective in getting defaulters to repay?
- Are there common reasons why defaulters seem to repay?

The results of this preliminary effort will be used by MHEAC to determine the structure of a more comprehensive study of these questions, perhaps with other states, and to identify key factors likely to be associated with default repayment.

In addition to formulating a study design, the results of this exploratory effort may yield findings useful in strengthening default collection techniques. Further it is hoped that other researchers will adopt the approach taken in this study, thereby broadening our understanding of the default problem.

The remainder of this report outlines the methodology used; describes the sample studied; discusses collection and payment; summarizes findings about why some defaulters repay; and concludes with recommendations for a comprehensive study of default repayment.

Methodology

This was an inductive study seeking to follow up on the "hunches" of veteran collection practitioners and guaranty agency administrators. Consistent with the ethnographic nature of the investigation, certain research questions evolved as data collection and analysis proceeded. However, the study remained focused on the fundamental research question — Why do some defaulters repay their debts?

Records from a collection agency under contract to MHEAC on 224 defaulted borrowers who had paid in full were content-analyzed to select any factors likely to have an impact on the repayment of a defaulted student loan. In the absence of prior studies, initial consideration and selection of data elements for the study was guided by the intuition and judgement of the researchers, the guaranty agency and collection agency staff. These records had been prepared by collectors for their own use and not for research purposes, but were deemed useful enough for an exploratory study. The staff of this agency consists of highly experienced, veteran collectors skilled in collecting payments on defaulted student loans as well as on all types of consumer loans. Collection contractors are used by twenty-five percent of the fifty-eight guaranty agencies in the nation[9].

The collection agency records included information about its own transactions with defaulted borrowers, the original loan application, and MHEAC information about the defaulters and its collection efforts. These data yielded many of the factors one would desire in a scientific study of why defaulters repay their debts.

Since loan applications change almost yearly, data were missing on items such as adjusted gross income and major course of study. The gender of the borrowers was determined by the name of the borrower. Information about techniques used by collectors was limited since these techniques were not always made explicit for each borrower. Interviews with collectors and trainers of collectors augmented the data on this topic. Finally, although the study obtained "reasons" or "incentives" for repayment in more than 90 percent of the cases, there is usually more than one factor operating in the repayment decision. The current study did not permit full identification of all of these factors and their interrelationship.

Table 1 on the following page lists the items reviewed for inclusion in the exploratory study, the original source of data and the percent of complete data obtained per element.

TABLE 1
INITIAL DATA ELEMENTS CONSIDERED

	Source			
	Application	MHEAC System	Collection Agency	% of Complete Data
Social security number			X	100.0
Gender	[determined by name of individual]			100.0
Original zip code	X			100.0
Most recent zip code			X	100.0
School name/type	X			100.0
Default date			X	100.0
Collection agency referral date		X	100.0	
Original loan amount	X	X		100.0
Default principal			X	100.0
Default interest			X	100.0
Months before first payment (after referral to collection agency)			X	100.0
Number of payments			X	100.0
Number of calls made			X	100.0
#3 Letter sent			X	100.0
#4 Letter sent			X	100.0
Legal settlement			X	100.0
Age	X	X		98.6
Completion status		X		98.6
Citizenship status	X			97.7
Reason/incentive for payment			X	95.4
Massachusetts residency	X			93.5
Student status	X	X		88.4
Major course of study	X			58.8
Employment status			X	48.14
Adjusted gross income	X			44.4
Degree/certificate	X			35.2
With whom borrower resides			X	27.8
Collection techniques			X	20.0
Property ownership			X	14.8

Six of the twenty-nine data elements listed in Table 1 were less than fifty percent complete. Of these, two elements — collection techniques and adjusted gross income — were retained in the study but their relative value should be interpreted with caution.

Two additional samples of 200 records each were selected at random from MHEAC's data base to provide some comparative figures for the variables listed below. One sample consisted of borrowers who have paid their loans in full; the other contains borrowers currently repaying loans without defaulting previously.

TABLE 2
RANDOM SAMPLE VARIABLES

Age
Sex
Original zip code
Adjusted gross income
School name/type
Completion status
Original loan amount

Description of the Sample

The sample contained 216 borrowers who had defaulted on their guaranteed student loans between March 1981 and June 1986, the majority of whom (65 percent) had defaulted in 1985.* All of the defaulters had been referred to a collection agency (between March 1986 and June 1987) and had subsequently paid in full between 1986 and 1987. This study deliberately chose to analyze those who made payments in full. The per-borrower default amount ranged from a low of $35 to a high of $13,327 (including accrued interest). The average amount of default was $2,150. It should be noted that MHEAC tends to refer smaller defaulted accounts (usually $7500 or less) to outside collection agencies such as the one used in this study. Typically, larger defaulted accounts (in excess of $7500) are sent to attorneys for litigation. Among the fifty-eight guaranty agencies surveyed by the General Accounting Office, seventy percent of defaulter's claims were $3,000 or less[10].

* Eight records were omitted because they were PLUS loans.

The majority of borrowers in the sample were Massachusetts residents at the time they borrowed (89.8 percent). Using the original zip codes of the sample of defaulters who paid in full, a geographic breakdown was performed. More than half of the sample resided in urban communities (e.g., Cambridge, Malden, Lynn, Springfield, Fitchburg, Quincy, etc.). One-third of these came from Boston. Very few individuals lived in rural areas or in small towns. Five percent of the sample came from out-of-state locations.

These results notwithstanding, a fairly large percentage (23.1 percent) of the sample lived in Boston suburbs characterized by economic growth and relatively high income levels (e.g., Action, Andover, Bedford, Marlboro, Saugus, Swampscott, Winchester and others). A small number (8.8 percent) resided in the most affluent communities of the state such as Cohasset, Marshfield, Scituate, Sherborn and Weston.

There were more males in the paid-in-full defaulter sample (59 percent) than females. Similarly there were more males (54 percent) in the random sample of 200 non-defaulters who had paid in full. Among the second random sample of 200 non-defaulters in repayment there were only 44 percent males.

Seventy percent of the borrowers were between 25 and 34 years of age with more than half of the amount between 25 and 29 years of age (see Table 3).

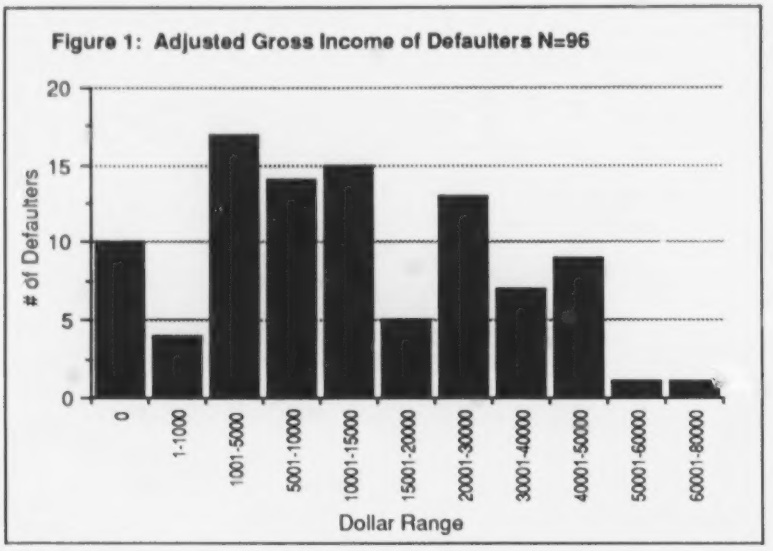
TABLE 3
AGE DISTRIBUTION DEFAULTERS WHO PAID IN FULL

Age	#	%
20-24	25	12
25-29	92	43
30-34	58	27
35-39	19	9
40-44	10	5
45 and over	9	4
Total	213	100

Comparison of this age distribution with the random selection of 200 non-default borrowers in repayment revealed a similar age pattern.

Of the 127 borrowers for whom there was information on major course of study, 31 percent planned to study Business, and 16 percent chose a Trade and Industrial major. The numbers were inconsequential for the fourteen other majors reported.

Available data indicate that 44.9 percent were employed at the time they were contacted by the collection agency (with 45.4 percent undetermined) and 13.4 percent owned property (85.2 percent undetermined). The adjusted gross income reported at the time borrowers applied for their loans tended to be under $15,000 as illustrated in Figure 1.



While many defaulters reported low family incomes when they entered school, 31 people had initial family incomes greater than $20,000 with 18 of these over $30,000.

Comparing defaulters who paid in full with non-defaulters who paid in full or who are in repayment status shows that defaulters were twice as likely to attend a proprietary school (23.61 percent) than the non-defaulters (11.04 percent and 10.63 percent).

TABLE 4
COMPARISON OF DEFAULTERS WHO PAID IN FULL WITH NON-DEFAULTERS WHO PAID IN FULL AND NON-DEFAULTERS IN REPAYMENT BY SCHOOL TYPE

	Defaulters PIF		Non-Defaulter PIF		Non-Defaulters Repayment Status	
	#	%	#	%	$	%
1. Public 2-year	24	12.5	9	4.32	17	7.23
2. Public 4-year	47	21.75	44	21.15	55	23.40
3. Vocational/Technical	8	3.70	2	.96	3	1.27
4. Proprietary	51	23.61	23	11.04	25	10.63
5. Private 4-year	66	30.55	112	53.84	106	45.10
6. 3-year programs	1	.36	6	2.88	3	1.27
7. Private 2-year	12	5.55	5	2.40	16	6.80
8. Graduate/Professional	4	1.85	5	2.40	8	3.40
9. Foreign	0	0.00	2	.96	2	.85
TOTAL	216	99.97	213	99.95	235	99.95

Although all three groups of borrowers were more likely to attend four-year private institutions, less than one-third of the defaulters attended this type of school. It should be noted that Massachusetts' private sector is very large, unlike most other states.

Compared to non-defaulters in repayment status, defaulters had a higher rate of school withdrawal, 31 percent, as compared to 20 percent. (Information for non-defaulters who paid in full was unavailable.)

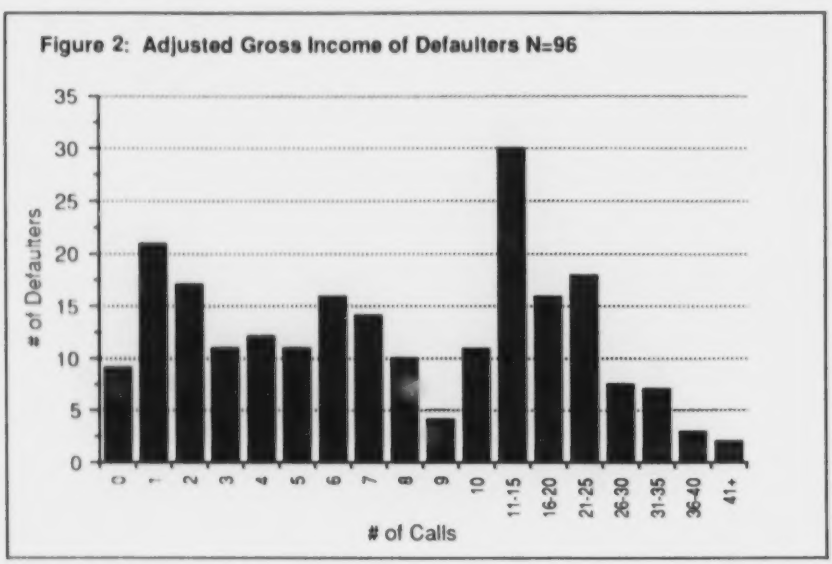
Collection

Every defaulted student loan account which reaches a collection agency has already undergone considerable collection activity, first by the lender and then by MHEAC. The study data derived from the collection activities of a third party, an outside collection agency. This study did not account for collection activity by lenders and by MHEAC. One cannot disregard the possibility that some defaulters may be inclined to repay simply because yet another organization is contacting them.

Nevertheless, the successful collection of outstanding balances can be attributed at least in part to the specific efforts made by the employees of the collection agency.

A standard collection technique is to demand that the defaulter pay the entire debt at once, for example, to clear the defaulter's credit rating and to establish eligibility for other higher education assistance. Other techniques vary with each account. Among the techniques identified by trainers of collectors were: a willingness to listen to the defaulters problems, a hard sell approach, and establishment of a rapport with the defaulter, a personal approach by using first names and a flexible response to the defaulters' financial limitations.

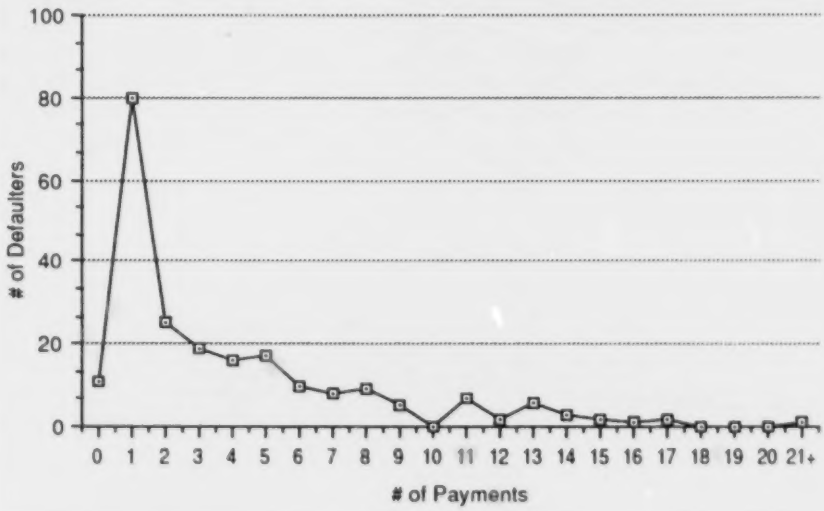
An important trait in a collector is persistence, as reflected here by the number of attempts to contact the defaulter (see Figure 2). On average, 10.2 attempted telephone calls were made before accounts were paid in full (this includes messages left on machines, with friends, and no answers). One-third of the borrowers were called more frequently than this average, with one recalcitrant defaulter requiring over 40 attempted contacts before final payment. Collectors were undaunted by wrong phone numbers and would take great pains to obtain correct phone numbers and addresses. Frequently they called references and family members in order to locate the borrower. One of the more effective ways to influence defaulters was to call them at work if a work number could be obtained.



Payment

One of the more interesting features of the defaulter's payment behavior concerned the number of payments they made. Eighty people reduced their balance to zero with one payment. This represents over one-third of the study sample. Figure 3 depicts the distribution of number of payments.

Figure 3: Number of Payments Made By Defaulters N=216



The eleven* "zero" payments represent cases where federal tax refunds were intercepted or offset and credited to the borrower's account.

There was no apparent relationship between the balance due and the number of payments. The larger loans were paid in one payment just as frequently as the smaller ones. The actual relationship between the original loan borrowed and the defaulted amount is illustrated in the following three figures.

In Figure 4, the original amount borrowed peaked between $2,001 and $2,500, which reflects the legal limit for annual borrowing for the years in question.

* This number differs from the total number IRS offsets reference in Table 6 because some defaulters made payment in addition to the offset. The defaulted amounts peak between $2,501 and $3,000 but more than one-third of the borrowers defaulted on lesser amounts.

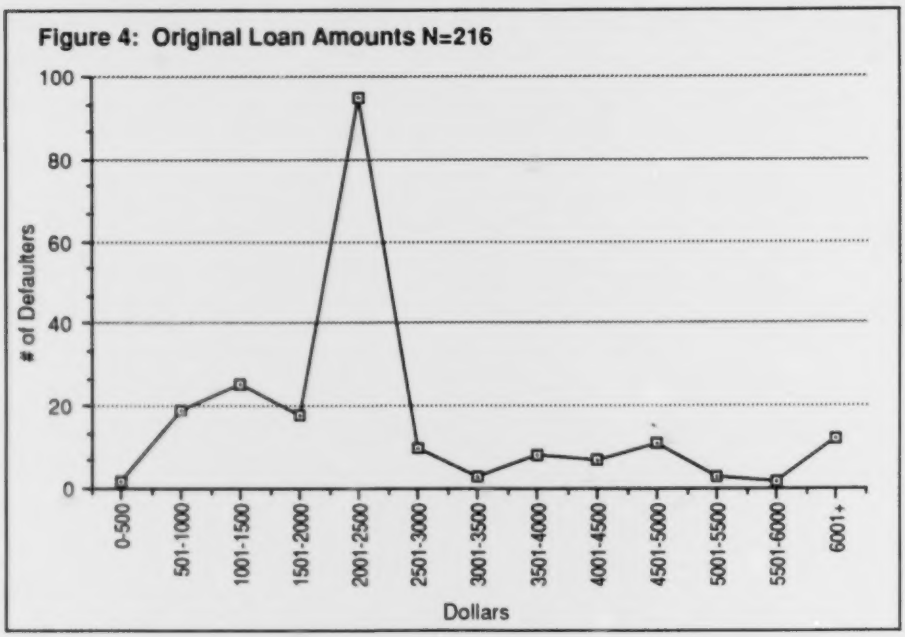


Figure 4: Original Loan Amounts N=216
100
80
60
40
20
0
# of Defaulters
0-500
501-1000
1001-1500
1501-2000
2001-2500
2501-3000
3001-3500
3501-4000
4001-4500
4501-5000
5001-5500
5501-6000
6001+
Dollars

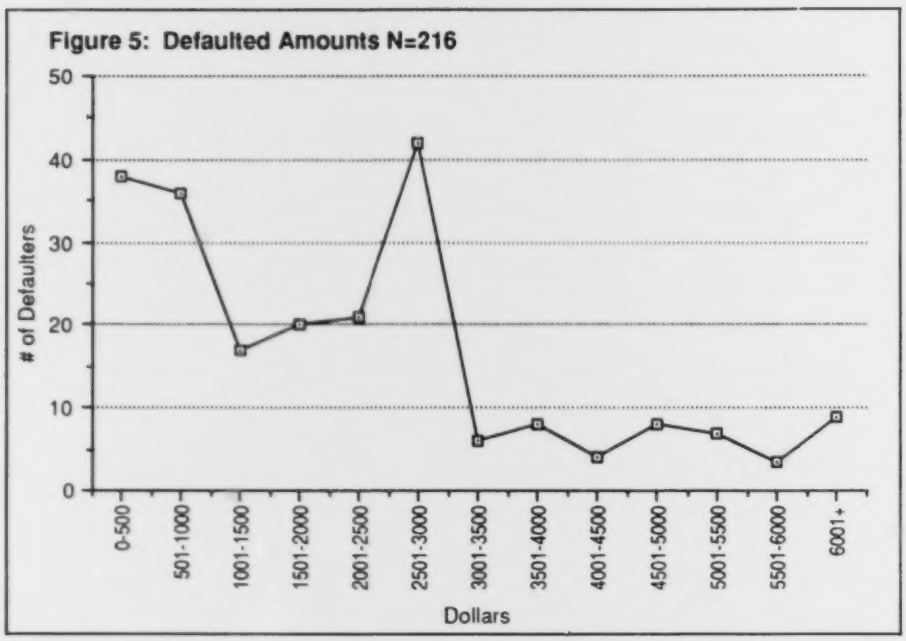
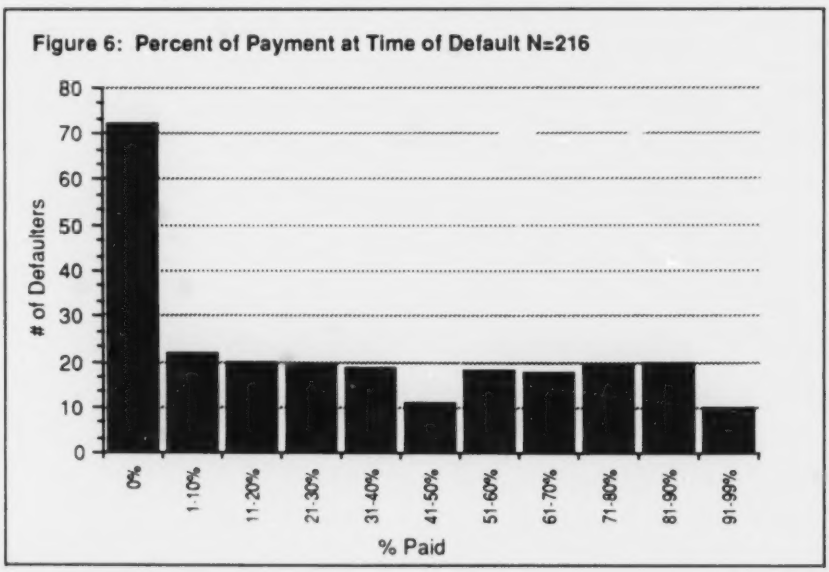


Figure 5: Defaulted Amounts N=216
50
40
30
20
10
0
# of Defaulters
0-500
501-1000
1001-1500
1501-2000
2001-2500
2501-3000
3001-3500
3501-4000
4001-4500
4501-5000
5001-5500
5501-6000
6001+
Dollars

Thirty-eight people defaulted on balances less than $500 and 36 people defaulted on balances between $501 and $1,000. Only forty-two (19.4 percent) defaulted on loan amounts above $3,000.

The relationship between the original loan and defaulted amount can be seen in Figure 6. One-third of the sample paid nothing before defaulting, but two-thirds made some payments before stopping, which is inconsistent with a commonly held theory that once payments are started they generally continue.



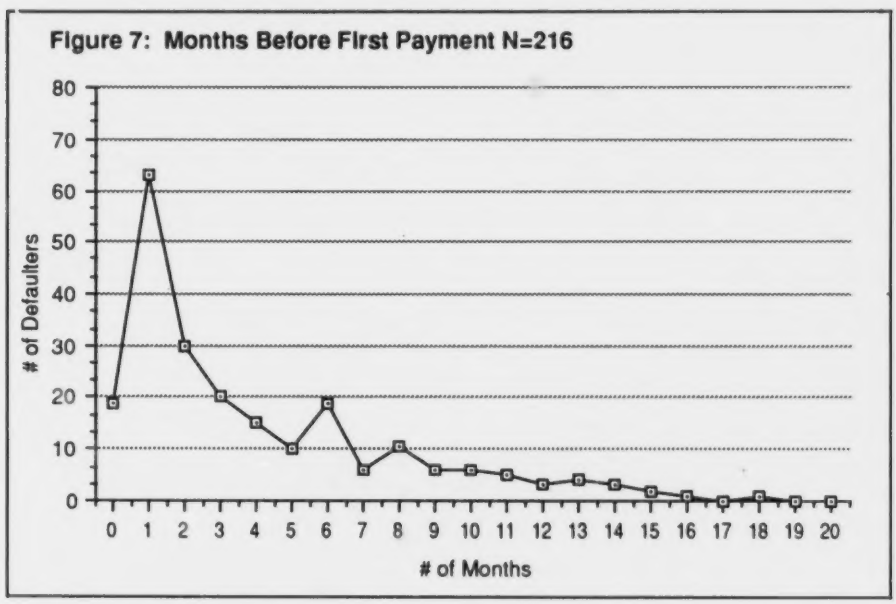
A comparative analysis of those who made no payments before defaulting (72) with those who had made some (144) was performed. More males (70.83 percent) paid nothing before defaulting as compared to the males who paid something (53.47 percent). A school type analysis indicated that those who paid nothing before defaulting were most likely to attend a four-year private institution (40.27 percent), whereas those who paid something were more likely to attend a proprietary institution (28.47 percent). The second most frequently attended type of school for the latter group was a four-year private institution (25.69 percent). The average adjusted family income among those who paid nothing before defaulting was higher ($18,158) than for those who paid something ($14,215). (These income figures are based on only 96 respondents.)

Those who had paid nothing before defaulting as compared to those who had made some payments had a higher average original loan amount ($3,171 vs. $2,714); took longer to make a first payment

once referred to a collection agency (4.86 months vs. 3.18 months); and required more phone calls before payment in full (10.53 vs. 9.97).

Despite this, those who had paid nothing before defaulting eventually paid more quickly (3.42 months vs. 4.46 months) than those who had made some payments and did so with fewer payments (3.32 payments vs. 4.13 payments). Among those who eliminated their defaulted loan with one lump sum payment, forty-three percent had made no payments prior to defaulting, whereas thirty-one percent had paid part of their debt before defaulting.

The next two figures illustrate the duration of the payment cycle. In this sample, many defaulters (90) made an initial payment within three months of being contacted by the collection agency (see Figure 7). There were a few stragglers that were pursued up to 18 months before their first payment.



The greatest proportion of defaulters closed their accounts with the agency within a few months of their initial payment (see Figure 8). Here, too, some individuals took as much as 19 months to pay their debt.

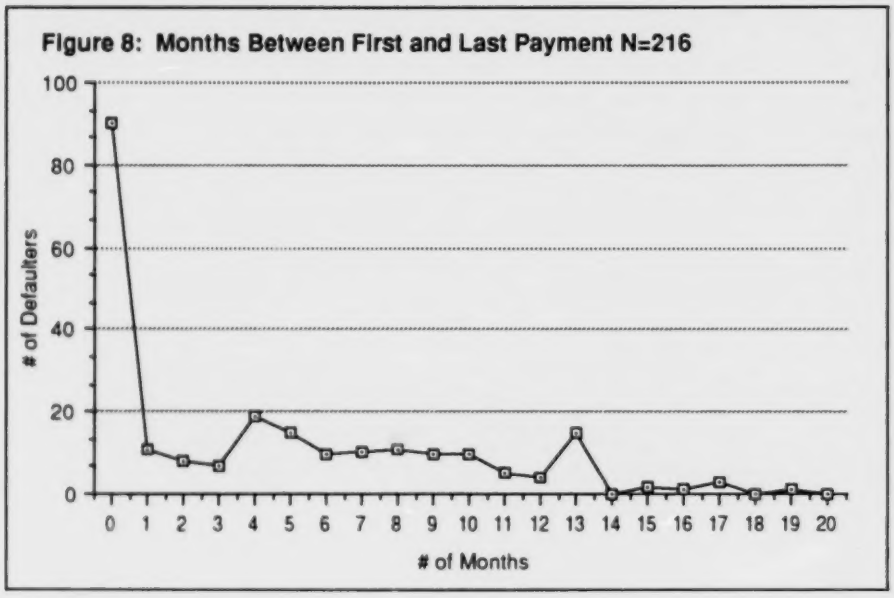


Figure 8: Months Between First and Last Payment N=216
100
80
60
40
20
0
# of Defaulters
0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
# of Months

Table 5 below gives the age of the defaulted loans in this sample. About three quarters of those who paid in full did so within two and one-half years from the time they defaulted. The GAO found that most defaulters took more than three years to pay off their loans.

TABLE 5
TOTAL TIME IN DEFAULT*
(for those who Paid in Full)

Number of Months	#	%
1-18	36	16.66
19-24	71	32.87
25-30	53	24.53
31-36	24	11.11
37+	21	9.72
TOTAL	**205***	**94.89***

* Defined as the period between the unmet date and the paid in full date.

** The eleven defaulters (5.09 percent) who had their IRS refund intercepted to pay their default were excluded from this calculation

The methods and reasons for payment varied with each case but several common patterns emerged. In almost a quarter of the cases, the primary motivation for repayment seemed to be effective telephone communication between the collector and the borrower. The collectors sent letters but followed through with as many phone calls as necessary to speak directly to the defaulter. A 1987 survey of guaranty agency collection techniques conducted by the General Accounting Office reported that twenty-five percent of agencies cite personal contact with a borrower as a successful collection technique[11].

The next most common event was that parents or other relatives paid the defaulter's debt (20.4 percent). A New York State study observed that repayers in general were three times as likely as defaulters to get help from their family[12]. Specifically, repayers who had not defaulted received family aid 25 percent of the time, defaulters only 7 percent and defaulters who repaid, 17 percent. Perhaps parents felt more obligated to repay the borrowed money, having a greater understanding of the effects of a defaulted loan, or they may have had financial resources unavailable to a younger person. Some parents indicated they would have paid sooner if their son or daughter had informed them of their default problem.

Among the seventy-two individuals who had paid nothing before defaulting, there was a greater reliance on parents (19.44 percent) to pay the defaulted loan than among the 144 persons who had paid something (13.88 percent).

The third most common reason for payment in this sample was the restriction of the borrower's ability to obtain other credit or loans. In 18.5 percent of the cases the borrowers applied for a mortgage, loan or other credit and were denied because of the loan. In 7.4 percent of the cases the borrower's property was attached, preventing access to new loans until the student loan debt was repaid. Reporting to credit bureaus, according to the GAO, is considered successful among twenty-nine percent of the guaranty agencies surveyed[13].

The fourth most frequent method of satisfying the debt was out of the borrower's control completely. The Deficit Reduction Act of 1984 allows the IRS to withhold refunds of federal income tax, or to reduce them accordingly, so that a defaulted student loan can be discharged. In this sample, 12 percent of defaulters looked forward to a refund check only to discover that their defaulted loan had been paid instead. The IRS offset was a slightly more prevalent means of eliminating the default obligation among defaulters who had paid something before

defaulting (13.19 percent) than among those who made no payments (9.72 percent).

The reasons or incentives for payment are included below:

TABLE 6

Reasons for Payment	Number	Percent
Effective telephone communication with borrower	53	24.5%
Parents or other relative paid	37	20.4%
Applying for mortgage, other loan application or clear credit bureau	40	18.5%
IRS Offset	26	12.0%
Attached or threatened to attach borrower's or parent's property	19	8.8%
Called borrower at work	4	19.9%
Borrower received "extra" money	6	2.8%
Other	14	6.5%
Unknown	10	4.6%
	216	

Summary

Among the 216 defaulters who had paid in full in this study, the average amount of default was $2,150 with most defaulting on amounts between $2,500 and $3,000. Despite this, a large minority of borrowers had defaulted on debts of less than $1,000.

More than half of the sample lived in urban areas when they first borrowed, but some individuals lived in relatively affluent communities. While partial data indicate that some of the defaulters are low income, many appear to be middle income.

There were more males among those who paid in full (both defaulters and non-defaulters) than for those still in repayment. The defaulters were similar to non-defaulters in age, with both groups usually between 25 and 29 years of age and a large number in the 30 to 34 year age range. The defaulters as compared to the non-defaulter group were twice as likely to attend a proprietary institution and were half as likely to enroll at a four-year private institution. Moreover, defaulters tended

to have higher school withdrawal rates than non-defaulters in repayment.

None of these demographic characteristics appear to be associated with repayment of default. On the other hand characteristics such as low income, inner-city residency, school withdrawal and proprietary school attendance are consistent with what is currently known about the characteristics of defaulters.

Persistence and telephone contact between collector and defaulter appeared to be the most effective techniques in motivating the sample defaulters to repay. Telephone contact presupposes time and effort in obtaining correct home and work numbers. Collectors called information or consulted a telephone directory and contacted references and relatives to locate borrowers. Calling defaulters at work seemed to yield positive results in this sample.

The apparent motivations or reasons for payment emerging from this exploration include:

- effective telephone communication
- parent's paying the debt
- credit restriction
- IRS offset

The high incidence of eliminating a defaulted loan with a single payment and the large number of borrowers who had been making payments before defaulting were somewhat surprising. Another interesting finding was that there appeared to be no relationship between the size of balance due and the number of payments these individuals made before paying in full.

Finally, it was curious that although those who never made payments before defaulting had higher loans and took longer to make the first payment, they ultimately paid more quickly than those who had been paying prior to default.

Future Study

The following recommendations for a comprehensive study of default repayment arose from three sources: findings suggested by this exploratory study, questions occurring during the performance of the

study and the intuition of perceptions of a variety of professionals involved in default collection including practitioners, program administrators and researchers.

Future study of default repayment should include in its design adequate controls; utilize a set of comparison groups; obtain data from collectors and from defaulters directly; include a representative sample of collection agents and borrower types; and should design an analysis which is both quantitative and qualitative.

Control: In order to distinguish between different borrower types (e.g., defaulters who do not pay versus those who do), a future study should be able to identify and control the variation due to other demographic and loan factors by taking them into account in the study design, namely:

gender
age
type of school attended
completion rates
prior education
income (at time of loan application and current)
employment status
length of employment
marital status
parental status

In addition to these demographic characteristics, the study should control for loan and default characteristics, such as:

original loan amount
default amount
duration of default
time before first payment
number of payments made before defaulting
number of payments made before payment in full
pattern of payment
size of monthly loan payment

Comparison: A minimum of four groups are needed to isolate relationships concerning the payment of default:

1. defaulters in repayment
2. defaulters who have not paid

3. non-defaulters in repayment
4. non-defaulters who have paid in full

The paid-in-full defaulter can then be studied against the characteristics and behavior of these other borrowers.

Data: In addition to the data elements which have been suggested, information that permits close scrutiny of the default collection transaction should be obtained. Included here are the specific techniques collectors employ and the way in which they adapt their approach to individual defaulters. The best way to obtain this information is through observation and interviews with collectors. Interviews with supervisors and trainers of collectors will help identify characteristics of collectors and descriptions of effective collection practice.

An important ingredient missing from the exploratory study was data derived directly from defaulters. Subsequent study should attempt to incorporate this essential data source in its design. Defaulters who have not paid may prove resistant to participate whereas defaulters who have repaid may be more willing to give an interview. In both cases, using a skillful, sensitive approach may evoke a positive response especially if the researcher emphasizes that this is an opportunity "to tell your side of the story."

Representativeness: A variety of agents perform default collections: private agencies under contract, guaranty agencies, lenders and attorneys. Future study should ensure that these groups be represented in the design.

A multi-state approach would strengthen the generalizability of the study findings, particularly if states with both newer as well as older guaranteed student loan agencies participate.

Analysis: With appropriate sample sizes and random selection, the quantitative data in this future study could be studied with analysis of variance, regression techniques, factor analysis and/or discriminant function. Selection of the specific techniques should, of course, follow after more fundamental decisions about the future study design are made.

A complete answer to the question of why some defaulters repay cannot be fully developed using quantitative data alone. Moderately structured interviews, checklists and open-ended questions can yield important information. These qualitative data should be analyzed using appropriate summary techniques, and reviewed by experts to

yield correct interpretations. Profiles of different types of defaulters should be written. These methods can be combined with the quantitative analysis.

Other Questions

A number of questions arose during the course of this study that should be considered in a future study:

- To what extent is the repayment of default linked to the original cause of the default?
- Can economic conditions in general (e.g., interest rates, economic development, employment rates, etc.) help to predict when large numbers of defaulters will repay? Or is the repayment behavior purely a result of factors internal or close to the individual defaulter?
- How great a role do parents play in the repayment of default? Is this role more or less than the current study suggests? To what extent is default related to parental expectations which are at variance with those of their children?
- From what sources do defaulters obtain the funds to make lump sum payments of their defaulted loans?

Conclusion

A comprehensive study of default repayment can provide a basis for strengthening collection practice through clarification of which techniques work and with whom. This information can be used to evaluate collection policies, practices and training programs. A clearer understanding about who is more likely to repay can also inform default prevention strategies. For example, if parents are an important source of help to some defaulters, as this exploratory study suggests, then a possible strategy is to explore legislation that would allow parents to be notified when repayment is scheduled to begin. Even if parents do not pay their children's loans outright, they may be an important ally in the collection process.

Endnotes

[1] Mark Wolfe, David Osman, & Vic Miller, *Report on Federal Guaranteed Student Loan Defaults by Postsecondary Education,* Federal Funds Information for States, Washington, D.C., September, 1987; General Accounting Office, U.S., *Legislative & Regulatory Changes Needed to Reduce Default Costs,* GAO/HRO-87-76, September, 1987.

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[8] Arlene Olinsky, *Student Loan Payers & Defaulters,* New York State Higher Education Services Corporation, Albany, NY, 1984.

[9] General Accounting Office, September, 1987.

[10] Ibid.

[11] Ibid.

[12] Olinsky, *Student Loan Payers & Defaulters*

[13] General Accounting Office, September, 1987.

Student Loan Defaults: One State's Approach

Robert Fomer

Director
Colorado Student Loan Program

I'm looking forward today to discussing the many ways in which the Colorado Student Loan Program has worked with schools and lenders to help prevent defaults. But before I share with you the success we've enjoyed here in Colorado, I must ask you to indulge me. This Conference provides me with an audience that will, no doubt, share my concerns and frustrations surrounding the default issue; hopefully you'll also allow me to offer our State approach to potential solutions.

The basic management of the Guaranteed Student Loan Program does not necessarily vary significantly by state or by agency. It is understood, if not widely felt, that the very structure of the program requires an acceptance of defaults . . .without defining a level of acceptability. The loan program was created to provide students, who have no credit history, no employment history, and no collateral, with the financial means to access higher education. This not only runs counter to traditional lending principles at virtually all banking institutions, it opens the door to potential defaults. The student, who is typically unsophisticated in borrowing principles, has a single-minded purpose when applying for a loan: this is to pay the tuition and fees required at the time of registration. We have no evidence that students compare guarantee fees, length of repayment, or any other financing options that might be available. Thye want to follow the path of least resistance. The prime concern is to get their loan checks. What they don't know is that they're entering the complex, often frustrating, world of financial assistance. Strange terms—forbearance, deferment, promissory note, repayment addendum, secondary market, servicer...the list goes on and on . . .the terms are used with seeming indiscretion by lenders, guarantors, and schools alike. The marriage of the uninformed borrower and the complex Guaranteed Student Loan program is often in jeopardy from the start. If you'll bear with my analogy, more than we'd like to acknowledge, once the novelty of receiving the loan check has worn off, and the borrower is faced with the daily demands of studying and test taking, the honeymoon is over. Were the authors of the legislation that created the program naive enough to assume that there would be no divorces? Perhaps initially; but as we

look to an administrative approach to reduce defaults, lenders and schools are required to perform "marriage counseling," to attempt to harmonize the often ill-fated union between the borrower and the sophisticated program. Ladies and gentlemen, I suggest that you go home tonight and tell your spouses that the honeymoon is over and that your marriage is approaching the default stage and you need to invoke a "cure policy". If your spouse isn't amenable, you can always offer an exit interview". The analogy isn't as far-fetched as it may sound. So what are our choices?

The complexity of the GSL program makes it extremely difficult to modify legislatively one aspect of the program without significantly affecting access. Enacting new cure policies, for example, places a burden on lending institutions, a burden that may cause them to re-think which schools they prefer their borrowers to attend. At the same time, schools concerned about default rates seek ways to discourage borrowing. Further, the idea of requiring co-signers on all GSL loans increases the lenders administrative cost. Some lenders will inevitably leave the program. In all cases, choice and access are minimized at the expense of the borrower.

So what is the real issue? I believe the issue is how can we provide low-cost credit to students and at the same time maintain low default rates and program integrity. We have all pledged to assist students in accessing higher education; no other bank loan or type of financial aid requires the partnership demands placed on the GSL program. The loan is an entitlement. If the student qualifies, they are to receive the loan. Schools are frustrated by the potential liability placed on their shoulders coupled with their lack of control over eligibility. Based on the eligibility criteria, participating lenders have virtually no reasonable excuse for not making the loan. Lenders must also exercise stringent due diligence responsibilities, or lose principle and interest on the loan.

I'm not disparaging the use of credit for education; at the present time, it's the only means some students have. There will always be a need for educational credit; the issue is, who gets it? The GSL provides credit financing for those not eligible for traditional credit; if you eliminate the GSL option, you have precluded certain classes of students from obtaining a higher education. Opponents of GSL claim that the $1.6 billion to be paid in defaults next year could be better utilized in other programs, such as Pell. I have seen no evidence that those monies would make their way into other financial aid programs. Think about this: if we had a zero default rate in GSL, policy makers would

insist that the $1.6 billion be channeled back into the program to make more loans to more students and reduce funding for other aid programs.

The very nature of the loan program suggests defaults, and given that the program will put $10 billion into our colleges and universities this year to support higher education opportunities for hundreds of thousands of low and middle income borrowers, the question remains what is an acceptable default rate?

What price will the public accept to ensure educational opportunities for all our young people? The answer lies in our values, not in our pocketbooks. We need to offer students a well-rounded, flexible assortment of financial aid; we need to simplify the program's complexities; we need to turn our attention to the positive sides of the program, to those thousands upon thousands of students who successfully complete their education, who become productive citizens, and who pay back their loans. A recent study, entitle "Consumption Patterns and Attitudes Towards Repayment," conducted in New England indicates that, despite high loan payments, students generally feel that the quality of their lives was significantly enhanced by their education; 67 percent said loans were extremely important in allowing them to continue their education after high school; 62 percent said student loans were important in allowing them to finish school. Most do not feel that their loan repayment negatively impacts their lifestyle or their ability to make other financial commitments. 71 percent said it did not affect their decision to have children. 44 percent said it did not affect their decision to purchase home or cars. I'm convinced that most borrowers define their own level of "acceptable debt," and take their responsibilities seriously. It is an investment in themselves and in their future, it's an investment that we must allow them to continue to make. Debt levels, in Colorado, at least, do not necessarily contribute to defaults.

We all must share the responsibility to work hard, harder than we have in the past to amend this nation's financial aid structure to maximize benefits for the most students. We must define an acceptable loss, given the social benefits of educating our young people. We must focus on simplification, on variety, and on flexibility. Back to the immediate demands of implementing default prevention programs.

The Colorado Student Loan Program has committed to providing support for schools and lending institutions, in spite of legislative and structural difficulties with the loan program. By support I mean joining in full partnership with the other entities in our state committed to

assisting students. Where potential liabilities are placed on all of us, we must work together whenever and however possible to minimize risk. While action taken in Colorado may not necessarily differ from that taken in other states, we have worked toward a comprehensive default prevention program that invites participation from all sectors.

We will guarantee $150 million in student loans this year and, at the same time, our defaults have been reduces by 10 percent. Two years ago we formed a Default Prevention Task Force, comprised of participants from three financial aid offices, a high school, our Commission on Higher Education, a secondary market, and two lending institutions. The Task Force came back with a number of recommendations, most of which have been successfully implemented. The Task Force agreed that exposure was essential—the borrower must hear, read, and see default prevention information at a full saturation level. The importance of credit responsibility must be stressed beginning at the high school, at the financial aid office, at the lender's shop, and through the mass media. Over a six month period we developed a default prevention video, distributed to all schools to use — as they felt relevant in their own default prevention programs. Simultaneously, we aired television and radio commercials providing our Repayment Hotline phone number. The Hotline was a pilot program, staffed by our in-house technical experts on repayment options. We wrote a "repayment guide," and mailed it to 10,000 borrowers leaving school. We made copies available for distribution through financial aid offices. Our initial evaluation showed a degree of success; the Hotline received approximately 150 phone calls per week. We analyzed the kinds of information callers requested. Today our Repayment Hotline is permanently staffed by three full-time employees. We received requests for an additional 10,000 Repayment Guides and, as a result, the publication became a permanent addition to our informational booklets.

Based on that success, and with the program changes through Reauthorization, we are near completion of an "Exit Interview" packet, consisting of a consolidation pamphlet, one on refinancing, a sample deferment form, a flyer regarding the repayment hotline, and sample repayment schedules. We have developed yet another set of "upfront" or debt management materials, with two separate publications on financial planning for both college and trade/technical school borrowers. Our "Personal Loan Counselor" pamphlet provides cautions to over borrowing. We have plans to run radio commercials announcing the repayment hotline three times a year.

At the same time, we have continued to monitor our default situation

and to keep our constituents current on the results. A full report on Secretary Bennett's default moratorium and our response was prepared for our Governor, Commission on Higher Education, legislators, bank and school presidents. We recently mailed a newspaper promoting repayment to over 66,000 borrowers. This past Winter we conducted default prevention seminars throughout the state for financial aid staff. We worked with NATTS to bring a day-long seminar to Colorado to help schools develop their own default prevention programs. We surveyed participants and have taken their suggestions into full consideration.

On the processing side, we have initiated an electronic processing system that allows schools to enter student status information online; we have increased and reorganized our Pre-claims Department to provide the necessary assistance and counseling to lenders and student.

We also formed a committee made up of financial aid directors to allow them input into ways we can improve our program. Our staff was active at the national level in proposing default prevention recommendations.

Let me tell you that when the task force recommended a comprehensive default prevention program, we took the term "comprehensive" seriously. We feel we have left virtually no stone unturned.

But at least as important as what we've accomplished is the true partnership that has emerged in the Colorado Student Load Program. I can't emphasize enough the spirit of cooperation that supported our efforts. If we have one overriding goal for default prevention in Colorado, that goal is for all involved to exercise a maximum effort. In our program, maximum effort means that all concerned contribute what they can, when they can, in whatever way they can for a common goal. Yes, we're all concerned with compliance issues, with profitability issues, with potential liabilities; but I suggest to you that the time, dollars, and effort that have been expended toward our default prevention efforts have exceeded those concerns. We simply care about our students and the image of our program. I applaud those of you here today who are from Colorado and who have demonstrated that commitment. The integrity of the program here has, in my opinion, increased significantly because of your efforts. And, as importantly, you have shown your ability to rally around an issue that could potentially harm us and our institutions, but which could also adversely affect the borrower's — access and choice to higher education.

Now, has this effort been successful? As I've pointed out, it has strengthened our program, bolstered our image, and enhanced our partnership. I also want you to know that our projections show that the Colorado Student Loan Program will pay $2 million less in default claims this year. Evaluation per se is difficult; it's hard to say whether our specific combined efforts brought about this change, which methods might have influenced which borrowers, but I suggest that they have. We will continue to develop our ideas, expand our programs, and fine-tune our techniques until we feel that we have exhausted every possible avenue. We will listen to you, work with the borrowers, commit the necessary staff and available dollars to the efforts.

So, in summary, we are faced with difficult times. We must walk a fine line between making what already exists work for us, while striving at the same time for change. We must demand an acceptable default rate while working to lower the rate that exists. We must wrestle with program complexities that are difficult for borrowers to comprehend, while at the same time working to change those complexities. We must provide credit financing for those who can't obtain financial support elsewhere while working to increase financial aid options. We can form the binding partnership that provides mutual benefits, but which also meets our long range goal of helping students access higher education. And, wherever possible, we can shield them, the student, from the pitfalls of the very program designed to assist them.

Identification of High Risk Borrowers

Dr. Richard H. Wedemeyer
Associate Dean of Student Services
Rockland Community College, Suffern, NY

Background

The Federal Guaranteed Student Loan Program began with the Higher Education Act of 1965. Although the eligibility criteria has changed over time, the basic structure of the program has remained intact. The federal government insures the student loans and lending institutions provide private capital to fund the program. Students without a demonstrated ability to repay may borrow money from lending institutions to attend college. Students must begin repayment six months after ceasing half-time study. Students who fail to make a payment within a 120 day period, default on the student loan and in New York, the Higher Education Services Corporation purchases the loan from the lender.

Concern about defaults in the Guaranteed Student Loan Program has been increasing since the first article appeared in The Chronicle of Higher Education written by Fields[1]. On November 4, 1987, William J. Bennett, Secretary of Education, issued a press release concerning Guaranteed Student Loan Defaults. Bennett stated that about one-half of the Guaranteed Student Loan Budget goes to default payments. In Bennett's letter to the Presidents of all participating schools, Bennett stated that "institutions with a default rate above 20 percent will immediately be subject to limitation, suspension, and termination proceedings with respect to their continued participation in federal student aid programs."[2]

Since Bennett's pronouncement, all participating schools are searching for ways to control their default rate so their continued participation in the federal student financial aid programs is not jeopardized.

Statement of the Problem

Bennett suggests a number of actions each school should take to curb their default rate. The suggestions include: (1) providing better loan counseling, (2) implementing less punitive tuition refund policies, (3)

improving admission practices, (4) withholding academic transcripts, and (5) improving communication to lenders and guarantee agencies. [3]

The motivation for curbing the default rate is much greater for two year schools. Bennett's definition inflates the community college default rate because he assigns the default to the last school the student attended. The better students who tend to transfer to four-year schools are not included in the number of borrowers in repayment at the two year school, thus inflating the default rates of two-year schools. Therefore, a two year school has a greater motivation to identify high risk students and develop an approach which would discourage high risk students from borrowing.

Although a school implements Bennett's suggestions, controlling the default rate at an open admissions institution such as Rockland Community College is impossible without taking additional measures. One measure might be to advise certain high risk students not to borrow. Identifying students who should be discouraged from borrowing is the central problem of this paper.

Methodology

Since Bennett's definition of default rate is a cohort definition, research was directed toward those students who recently borrowed and defaulted in the student loan program. With this in mind, a random sample was selected from students who borrowed in 1984-85 while enrolled at Rockland Community College. This academic year was selected because it would provide time for students to finish the second year (i.e., 1985-86) and still leave a reasonable amount of time from May of 1986 to the December of 1987 to default.

The sample was taken by selecting one out of every ten student loan applications for the 1984-85 academic year. Data were obtained from both the guaranteed student loan application and from the student's academic transcript at Rockland Community College. The data were entered into a computer file created by PFS File software and then loaded into the SPSS/PC+ Program for the discriminant function analysis. The data collected on each student included the following variables:

Student Loan Application (Part A is completed by students)

1. Year of birth
2. Citizenship
   Citizens of the United States (i.e., 1) or permanent residents (i.e., 2)
3. New York Residency
   New York residents for at least one year before enrolling (1=Yes, 2=No)
4. Intended enrollment level
   Full-time (i.e., 12 credits) or part-time (i.e., 6)
5. Loan amount requested (i.e., in dollars)
   Student's request for the loan

Part B Completed by the School Financial Aid Officer

6. Dependency
   Independent (i.e., 1) or dependent (i.e., 2)
7. Year in School
   The number of credits earned and translated to first or second year
8. Period of Loan
   The academic period of the loan (i.e., 1 or 2 semesters)
9. Estimated Cost (i.e., in dollars)
   The college budget for students during the period of the loan
10. Adjusted Gross Income (i.e., in dollars)
    The Adjusted Gross Income on the Federal Income Tax Form
11. Expected Family Contribution (i.e., in dollars)
    The amount resulting from the Uniform Methodology
12. Date Certified
    Date loan application was certified by a Financial Aid Officer
13. Amount Borrowed (i.e., in dollars)
    The amount of the lender's check

Student's Transcript at Rockland Community College

14. Curriculum Code
    The eligible academic program in which the student is matriculated
15. Cumulative Degree Credits
    The total number of degree credits earned by the student
16. Cumulative Grade Point Average
    The grade point average of the student (4.0=A, 3.0=B, 2.0=C, 1.0=D, 0.0=F)

17. College Skills
    If Yes (i.e., 1), the student is in a developmental program
18. English as a Second Language Program
    If yes (i.e., 1), the student is in a program for English as a Second Language
19. Default Purchase Date
    The date the loan was purchased by thee NY State Higher Education Services Corporation

The statistical treatment that seems to be most appropriate is the discriminant function. It was first introduced by Sir Ronald Fisher (1936). Simply, linear combinations of the independent variables are formed which serve as the basis for classifying students into one of the two groups: high or low risk. The equation which results can then be used to classify students into high or low risk groups with a given probability of accuracy.

First, cross tabulations were used to profile the population in respect to each variable both high and low risk groups. Then in order to predict whether a particular student falls into a low risk or a high risk group, the variables were ranked as to their predictive ability. This was done in a stepwise manner. The most predictive variable was added to the equation, then the next most predictive variable and so on until the equation developed represents the most predictive power obtainable. The DISCRIMINANT Program from SPSS/PC+ was used to identify the more predictive equation to classify students into high or low risk categories.

Analysis of Data

The data obtained from the sample yielded 99 borrowers who had not defaulted and 14 borrowers who defaulted by December of 1987. The nineteen variables previously mentioned were reviewed using the SPSS/PC+ output for crosstabs. Borrowers who defaulted were labeled high risk whereas those that did not default were labeled low risk. Highlights of the cross-tabulation follows:

1. Year of Birth

The year of birth was converted to the borrower's age. Of the 18-24 year olds, 47.5 percent was high risk versus 52.5 percent low risk. The difference was not statistically significant when using the Chi-Square analysis.

2. Citizen

Borrower's who were citizens versus eligible non-citizens did not show significance with the Chi-Square test. The percentage of low risk citizens was 83.8 percent while high risk citizens was 85.7 percent.

3. New York Residency

All of the high risk borrowers were residents of New York while 97 percent of the low risk borrowers indicated New York residency. The Chi-Square test showed no significance.

4. Full-time/Part-time

All high risk borrowers were full-time whereas 89.9 percent of the low risk borrowers were full-time. The Chi-Square was not significant.

5. Loan Amount Requested

Although there was no significant difference between low and high risk borrowers, high risk borrowers requested the maximum loan in 85.7 percent of the cases while low risk borrowers requested the maximum loan in 77.8 percent of the cases.

6. Dependency

Low risk borrowers tended to be independent (77.8 percent) while high risk borrowers were independent in 71.4 percent of the cases. Chi-Square was not significant.

7. Year in School

A greater percentage of low risk borrowers were in their second year of college (23.2 percent) than high risk borrowers (21.4 percent). The Chi-Square was not significant.

8. Period of the Loan

Although the Chi-Square was not significant, the period of the loan tended to be two semesters for high risk borrowers (78.6 percent) while 71.7 percent of the low risk students borrowed two semesters.

9. Cost

The cost reflected standard student budgets. The cost budget at $3,930 included 23.2 percent of the low risk versus 14.3 percent of the high risk borrowers. At the cost budget of $6,390 low risk borrowers amount to 14.1 percent while high risk borrowers accounted for 28.6 percent. The Chi-Square was not significant.

10. Estimated Financial Aid

The difference between high and low risk borrowers was significant (.0078) with 33 degrees of freedom on the Chi-Square test. More high risk borrowers (35.7 percent) had no estimated financial aid while 23.2 percent of the low risk borrowers had no estimated financial aid. Estimated financial aid of over $2,500 showed low risk cases at 48.5 percent and high risk at 21.4 percent.

11. Adjust Gross Income

Although adjusted gross income was insignificant, more high risk borrowers (21.4 percent) had zero income than low risk borrowers (12.1 percent).

12. Expected Family Contribution

This was not significant per the Chi-Square test. Only 85.7 percent of the high risk borrowers versus 87.9 percent of the low risk group had zero family contributions.

13. Date Certified

The Chi-Square test showed significance at the .005 level with 12 degrees of freedom. The high risk borrower tended to borrow during the second semester (42.9 percent) versus the low risk group (9.1 percent).

14. Amount Borrowed

The Chi-Square test showed a .0036 level of significance with 45 degrees of freedom. The low risk group borrowed the maximum amount in 61 percent of the cases while the high risk group borrowed the maximum in only 35.7 percent of the cases.

15. Curriculum Code

The Chi-Square test was significant at the .0367 level with 15 degrees of freedom. The high risk group showed 71.4 percent enrolled in a general Liberal Arts curriculum and while 46.4 percent of the low risk group enrolled in Liberal Arts.

16. Grade Point Average

This was not significant using the Chi-Square test. High risk borrowers had grade point averages of less than 1.0 (D average) in 92.8 percent of the cases; low risk students had a grade point average of less than 1.0 in only 65.6 percent of the cases.

17. College Skills

This was not significant using the Chi-Square test and all of the high risk borrowers were not in the college skills program; a developmental program.

18. English as a Second Language (ESL)

The Chi-Square test was not significant and all of the high risk borrowers were not in the English as a Second Language Program.

19. Cumulative Degree Credits

The Chi-Square test did not yield significance and high risk borrowers had zero degree credits in 64.3 percent of the cases versus 54.5 percent for low risk borrowers.

The SPSS/PC+ Discriminant function program was used for the remaining part of the data analysis. Excluded from the discriminant function were two variables — date certified and curriculum code. Date certified was eliminated because it has little meaning or relevance. Curriculum code was not included because it is a discontinuous variable.

The discriminant function was performed on the 113 cases of which 99 were low risk and 14 were high risk. None of the cases chosen by the sample were excluded from the discriminant analysis.

The program calculated the group means and standard deviations for low and high risk borrowers. Other outputs included were then pooled within groups correlation matrix and the covariance matrix for both high and low risk groups and the total.

The stepwise discriminant function was used which selected the variable which minimized Wilk's Lambda. Wilk's Lambda is simply the within groups sum of squares divided by the total sum of the squares. Small values of Wilk's Lambda indicate that group means appear to be different. By selecting a variable with the lowest Wilk's Lambda it insures that the mean of that variable for low risk borrowers is the most different from the mean for high risk borrowers.

Because Wilk's Lambda was .95484, the amount the student borrowed was selected first. The remaining variables were recalculated and the grade point average was entered next. Steps continued and the following variables were added one by one into the analysis: estimated financial aid, adjusted gross income, and full-time/part-time. The amount borrowed was then removed from the analysis because the F statistic was less than two. Other variables added were cost, and period of the loan.

The result indicated a significance level of .0005 with an Eigen value of .24954 which is the ratio between groups sum of squares to within groups sum of squares. The discriminant function coefficients are then standardized to a mean of zero and a standard deviation of one. The results can be used to rank the variables in their power of separating one group from the other. The variables were ranked as follows with the most discriminating variable first:

1. Estimated financial aid
2. Adjusted gross income
3. Full-time/part-time
4. Grade Point Average
5. Cost
6. Period of the loan

The linear equation obtained from the discriminant analysis is as follows:

The Discriminant score =

- (.0008081366) X Estimated Financial aid
- (.0000727905) X Adjusted Gross Income
+ (.3647061) X Full-time/part-time
- (.2955686) X Grade Point Average
-(.0000641663) X Cost
+ (.63726633) X Period of Loan
- 2.284033

The program then used the Bayes' Rule to classify each case into the low or high risk group. The Bayes' Rule classifies each case using a probability that a specific discriminant score belongs to a certain group. The result is the following classification matrix:

Table 1
Predicted Group

Actual Group		Low Risk	High Risk
Low Risk	99	79 79.8%	20 20.2%
High Risk	14	3 21.4%	11 78.6%

Percent of correct classification was 79.65 percent which can serve as an index of the effectiveness of the discriminant function.

Summary and Conclusions

The most predictive variables resulting from the discriminant analysis can be used with the discriminant equation to correctly classify borrowers into either a low or high risk category in 79.65 percent of the time. A summary of each significant variable follows.

The high risk borrower tended to have less estimated financial aid than the low risk borrower (i.e., $1,039 versus $1,691). The average adjusted gross income for high risk cases was $9,057 versus $12,193 and high risk borrowers tended to be dependent. All high risk borrowers were full-time students carrying at least 12 credit hours per semester. The average grade point average for high risk borrowers was .25929 versus 1.02121 for low risk students. (This was understandable

since many of the high risk students were new students and did not have a grade point average at the time the loan was certified.) The average cost tended to be less for the high risk group and the period of loan tended to be two semesters for high risk borrowers.

In summary, the student who has little other financial aid, who has a low adjusted gross income, who is full-time, who has no grade point average, who has a low cost and borrows for two semesters will tend to the high risk student borrower at Rockland Community College.

Recommendations for Implementation

Since Bennett's cohort default definition inflates the percentage for two year colleges, a two-year college has a greater motivation to take steps, regardless of philosophy, to curb the default rate in order to protect the school's eligibility for federal Title IV funds. With this in mind, Rockland Community College requires a pre-certification interview of all students before the Guaranteed Student Loan can be approved.

Entrance interviews cover repayment responsibilities. Although students know their repayment responsibilities, that knowledge has little to do with their ability to graduate, transfer to a four-year school, graduate from the four-year school and get a good job to repay the loan. A more deliberate process is required.

Identification of high risk students before the loan application is approved can be very useful in curbing the default rate. The pre-certification interview can be very different for high risk students. The advising session can stress alternatives to borrowing. Although a school can not refuse to certify a loan, the financial aid counselor can strongly discourage high risk students from borrowing. A search should be made for alternative grant sources and students should be referred to job placement for full or part-time jobs. Some students might be encouraged to attend part-time, obtain a full-time job and reapply next year when they have a proven academic track record and a high probability of success. If the student still insists upon borrowing, the period of loan can be restricted to one semester which would reduce the amount the student can borrow. It was also apparent that high risk students tend to borrow after the beginning of the second semester (i.e., 42.9 percent) when they realize they need more money to pay the bills. It is understandable that high risk borrowers would lack good skills in financial planning. These loans which are requested after the

second semester starts should be discouraged to students in high risk categories.

Only by identifying high risk students can a two-year community college like Rockland Community College curb its default rate and thereby remain eligible for Title IV funds and retain its open door admissions policy.

Endnotes

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Section III

Trends In Student Borrowing

Trends in Student Borrowing

Abstracts

The Changing Patterns of Supplemental Borrowing: A Profile of Emerging Family Education Debt, *Thomas D. Parker*

This paper focuses on the characteristics of students and parents who use alternative non-federal loan programs by reporting the results of the Parents Survey on Financing Education, a study conducted in 1987 by Enrollment Management Consultants (EMC) and sponsored by The Education Resources Institute (TERI) and the Massachusetts Higher Education Assistance Corporation (MHEAC).

The survey results provide information that addresses issues such as the number of funding sources used to meet college costs, parental perceptions of education loan options, the demographic characteristics of parents who plan to borrow next year, parental opinions of loan features such as graduated payment plans and income-contingent repayment, and parental evaluations of information sources for learning about education financing options.

The results of the survey highlight the complex array of financing packages that families are using to meet college expenses. Families are relying on multiple sources of financial support to pay for their children's education and have expressed a willingness to borrow for higher education. More students and their families are turning to options such as supplemental loans to pay for college. As new federal provisions limit Guaranteed Student Loan (GSL) eligibility, it appears likely that the scope and volume of supplemental borrowing will increase in the years ahead. The paper examines the public policy implications toward the increased use of supplemental education loans.

Data on the small but growing cohort of families who are borrowing to pay for independent elementary and secondary education is also reported in this paper.

The New England Student Loan Survey: The Impact of Student Loans on Borrowers, *Sandy Baum & Saul schwartz*

The New England Student Loan Survey is a study of participants in the Guaranteed Student Loan Program in Massachusetts who are currently in repayment. The study found that a large majority of borrowers believe that the availability of student loans significantly increased their educational opportunities. This feeling is particularly strong among people from low-income family backgrounds. This group is also, however, most likely to have restricted their educational choices because of concern over borrowing. Although about one-third of the survey respondents feel significantly burdened by their loan repayment obligations, there is no evidence that people who have large debts are any less likely than those with smaller debts to own cars, to have purchased new cars, to own their own homes, or to have moved out of the parents' homes. That is, their perceptions of burden are not accompanied by any measurable differences in lifestyle from similar borrowers with smaller repayment obligations.

Borrowing Patterns Among Graduate and Professional School Students, *James P. Honan*

This paper focuses on two primary questions:

(1) What factors account for the different borrowing patterns among graduate and professional school students? and;

(2) What policy options can help address potential debt burden problems among graduate and professional school students?

Recent literature and research on borrowing by graduate and professional school students is reviewed and policy options such as income-contingent loans, loan consolidation, loan forgiveness, etc. are discussed in detail.

The Changing Pattern of Supplemental Borrowing: A Profile of Emerging Family Education Debt

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Introduction: Alternative Non-Federal Loan Programs

As eligibility requirements for the Guaranteed Student Loan Programs become more stringent and the price of education continues to outpace inflation, increasing numbers of students and parents are searching for new sources of financial support to pay for college. Alternative non-federal loan programs represent one of the options on which more students and parents now rely. This paper will focus on the characteristics of these students and parents by reporting the results of a study entitled "Parents Survey on Financing Education" conducted by Enrollment Management Consultants (EMC) in 1987 and sponsored by the Education Resources Institute (TERI) and the Massachusetts Higher Education Assistance Corporation (MHEAC). Data will also be reported on the small but growing number of families who are borrowing to pay for independent elementary and secondary school education. The paper concludes with an examination of the public policy implications of the trend toward supplemental loans. James Honan, of Harvard University, served ably as a research assistant in the preparation of this paper.

The Parents Survey on Financing Education

The Parents Survey on Financing Education was conducted to determine the opinions and preferences of parents who are currently financing their children's college education. The survey consisted of in-depth telephone interviews of 500 parents of current GSL, PLUS, and TERI borrowers. Survey participants represented a stratified (by geographic region) random sample of parents that over-sampled Massachusetts residents and drew complementary samples from the remaining New England states, as well as upstate New York and Long Island.

Selected demographic characteristic of the survey sample are as follows:

- Mothers (62.2 percent) were much more likely than fathers (37.8 percent) to take part in the survey interview;
- Parents were asked to focus their responses on their child who most recently entered college; the colleges and universities which these children attend are nearly all four-year institutions (97.2 percent) and primarily private colleges/universities (71.1 percent);
- While most parents indicated that their children plan to pursue a four-year undergraduate degree (55.5 percent), a large portion of students plan to go on to graduate school (33.9 percent) or professional school (10.0 percent).
- The majority of parents participating in the survey were white (94.4 percent) and report that their annual income is more than $40,000 (60.5 percent); and
- Approximately 73 percent of the parents who were able to estimate the cumulative loan amount which they will borrow for their children's undergraduate education (97.4 percent were able to provide such and estimate) felt that their total amount of education loans will range up to $20,000; remaining 27 percent reported that the cumulative loan amount would exceed $20,000.

Survey Results

The survey results provide information that addresses issues such as the number of funding sources used to meet college costs, parental perceptions of education loan options, the demographic characteristics of parents who plan to borrow next year, parental opinions of graduated payment plans, income-contingent repayment, and parental evaluations of information sources for learning about education financing options. These and other issues are discussed in detail below with an emphasis on the implications that the survey results have on the changing pattern of supplemental borrowing.

A. The Number of Funding Sources Used to Meet College Costs

The survey results show that families are using multiple sources of funding to finance their children's college education. Specifically, 84 percent of the parents indicated that they use more than one funding source and 60 percent reported that they depend upon three or more sources. It is important to point out that the sources of funding that were part of the survey included only federal and private grants, student employment, and four loan sources (federally-funded educational loans, private family education loans, home equity loans, and personal bank loans). Hence, these funding sources would be in addition to parents income and/or savings.

When asked to specify which of the four loan sources they were using to meet college expenses, approximately 37 percent of parents indicated that they were currently using two or more sources of loan funding. The survey results showed that nearly two-thirds of the parents plan to borrow money for education expenses next year and just over half of these families reported that they will be participating in both a student and a parent loan program.

B. Parental Perceptions of Education Loan Options

Survey participants were presented (in advance of the telephone interviews) with written descriptions of seven education financing options [TERI supplemental loan, Guaranteed Student Loan (GSL), Parent Loans for Undergraduate Students (PLUS), National Direct Student Loan (NDSL) (now known as Perkins Loan), Supplemental Loans for Students (SLS), home equity loan, and unsecured bank loan]. During the telephone interview, parents were asked to rate each loan option in terms of "desirability".

Somewhat surprisingly, parents rated all of the loan programs designed specifically for education as more desirable than home equity loans or unsecured bank loans; certain education loan programs were viewed as more attractive than others. Specifically, the GSL is rated as the most desirable education financing option across all family income levels.

The survey results also show that the GSL is viewed by parents as providing opportunity for their children's future and that families perceive that the GSL has provided their children choice among public and private colleges and universities.

The survey results indicted that while a non-federal supplemental loan such as TERI does not have widespread appeal among parents of col-

lege students, the TERI loan is particularly attractive to certain market segments. Specifically, these segments include: (1) parents who believe that they will borrow more than $20,000 for their children's undergraduate education; and (2) parents who think that it is reasonable to finance 50 percent to 100 percent of their children's education with loans.

The two federal supplemental loan programs, PLUS and SLS, were also found to be particularly appealing to families willing to use loans to finance 50 percent to 100 percent of their children's educational expenses.

One of the more important findings of the survey regarding parental attitudes was that "the significant difference in the families" willingness to borrow to finance educational expenses appears to reflect a positive attitude toward investing in their children's future. It is this positive view of financing by loans—future investment versus mortgaging one's future— which is reflected in the parents endorsement of family educational loans"[1]

The survey results show that parental attitudes toward responsibility for repaying education loans differ according to the cumulative amount borrowed for undergraduate education. Specifically, parents who plan to borrow more than $20,000 to finance their children's education are more likely to share the responsibility for educational loan repayment than parents who plan to borrow less than $20,000.

C. Demographic Characteristics of Parents Who Plan to Borrow Next Year

In addition to examining parental attitudes toward borrowing for education, the survey also attempted to identify those market segments that are most likely to constitute "next year's borrowers". To address this issue, survey data was analyzed by demographic factors such as zip code, family income, parental education, public/private college attendance, student educational aspirations and current participation in MHEAC/TERI loan programs.

Selected findings from this section of the survey include the following:

- Families in the $60,000 or more annual income category are somewhat more likely to plan to use educational loan next year than families in other income categories;

- Families in the $40,000 to $60,000 and $60,000 and above income categories are more likely to plan to accrue more than

$20,000 in education loans than families in the $10,000 to $40,000 income category;

- While the percentage of families who plan to borrow for educational expenses next year is only slightly higher for families with children attending private colleges vs. families with children attending public colleges, the percentage of families who expect to borrow more than $20,000 for educational expenses is twice as large among private college families as it is among families whose children attend public colleges;

- Families with children who plan to attend graduate or professional school are much more likely to plan to borrow for education next year and are much more likely to expect to accrue more than $20,000 in cumulative education debt;

- Parents who have attended graduate school themselves are more likely to plan to borrow for their children's education next year the parents in other educational attainment categories;

- Families who are most likely to borrow for educational expenses next year are those who are presently participants in the TERI loan program and;

- Most current GSL/PLUS/TERI participants who plan to borrow next year indicated that they will utilize both a parent and a student loan.

D. Parental Opinions of Loan Options

Those parents who indicated that they planned to borrow for their children's education next year were asked to evaluate a series of loan options (e.g., tax deductible interest, extended repayment, etc.) in terms of their effect on choice of education financing alternatives.

Selected findings from this section of the survey include the following:

- Families in the higher income categories ($40,000 and above) expressed interest in borrowing substantial amounts, in borrowing for the full four-year's tuition for the purpose of stabilization, and in tax deductible interest;

- Families in the $40,000 and below income category expressed interest in factors such as repayment based on income and extended repayment period;

- Parents who estimate that their cumulative education loans will be more than $20,000 expressed interest in the ability to borrow substantial amounts, in borrowing four-years' tuition for the purpose of stabilization and in a single application for several loan programs options;

- Parents who planned to borrow less than $20,000 overall were interested in options such as repayment based on income level, extended postgraduate grace period, and two convenience features; applying for the loan by telephone, and an education line of credit; and

- Parents whose children plan to attend graduate or professional school are significantly more interested in extended repayment periods and the ability to borrow substantial amounts than parents whose children are not planning a postgraduate study.

The overall finding in this section of the survey is that the availability of substantial amounts of money is of interest to higher income families, parents who plan to incur large education loan amounts, and families whose children intend to go on to graduate or professional school. Lower income families and families whose children do not plan to pursue postgraduate study express interest in options relating to the repayment process (especially income-contingent repayment).

E. Parental Evaluation of Information Sources for Learning About Education Financing Options

In an effort better to understand parental opinions on the effectiveness of various sources of information regarding education financing options, survey participants were asked to evaluate a series of information sources in terms of their helpfulness.

Selected findings from this section of the survey include the following:

- Financial aid and admissions offices received the highest ratings from parents at all income levels as being a helpful information source;

- Direct mail received from banks was viewed as an especially helpful source of information on education financing options by parents in the $40,000 to $60,000 income range;

- High school guidance counselors were rated much more posi-

tively as an information source by parents in the $40,000 and below income category than by parents in the middle and higher income groups;

- Financial aid directors, guidebooks, other parents and college students were viewed as very helpful sources of information on education financing options;

- Parents who have not attended college gave especially high ratings to admissions office representatives and high school guidance counselors as being helpful sources of information on education financing options; and

- Parents with children in private colleges and universities gave direct mail from financial aid offices significantly higher rating as a helpful information source than parents whose children attend public institutions.

The overall finding of this portion of the survey is that certain sources of information on education financing options are perceived as more helpful than others by certain sub-groups of parents and market segments.

F. TERI's PLEASE Program

A small but growing number of families are borrowing to pay for their children's education at independent elementary and secondary schools. In 1983, a group of educators established the Parent Loans for Elementary and Secondary Education (PLEASE) Program. The program, which is currently a product of The Education Resources Institute is available in 31 states and has grown significantly in its first five years of operation (see chart below). The average loan amount is currently $5,000 and the average term for PLEASE Loans is approximately 16 months. PLEASE loans are limited to a payback period of no more than three years to encourage parents not to jeopardize their ability to borrow for their children's college costs.

Table 1: Parent Loans for Elementary and Secondary Education 1983-1987

YEAR	# of Schools	# of Loans	$ Volume
1983	10	100	$329,203
1984	31	175	838,269
1985	55	246	1,312,997
1986	83	300	1,500,000
1987	195	740	4,000,000

The Growth of Supplemental Loans: Public Policy Implications

The results of the Parents Survey on Financing Education highlight the complex array of financing packages that families are using to meet college expenses. As have been noted above, families are relying on multiple sources of financial support to finance their children's education and have expressed a willingness to borrow for higher education.

As was stated earlier, more students and their families are relying upon options such as supplemental loans to pay for college. As new federal provisions limit Guaranteed Student Loan eligibility, it appears likely that the scope and volume of supplemental borrowing will increase in the years ahead. A recent Georgetown University survey[2] of 61 financial aid administrators from 35 states showed that PLUS and/or SLS borrowing has increased at the majority of the schools surveyed and that most schools offered some alternative funding option to their students (e.g., PLUS/SLS, school-sponsored loan programs, state-sponsored loan/employment programs, consortium-sponsored loan programs, loans from private sources, etc.).

Supplemental loans can play important and diverse roles depending upon a family's financial circumstances and that family's overall plan for meeting college expenses. These roles can include the following:

- Families who do not qualify for federal or institutional financial aid programs may turn to non-federal supplemental loans as one of the few education financing options for which they are eligible;

- Families may use supplemental loans to augment federal and institutional financial aid programs in order to meet

their children's unmet financial need;

- Families concerned about their current and/or short-term cash flow might use a supplemental loan to finance all or part of the expected family contribution that was calculated through need analysis formulas;

- Families interested in tuition stabilization might use a supplemental loan to finance all or part of their participation in a tuition prepayment plan.

In a sense, a supplemental loan is not "supplemental" at all, but rather, is becoming an integral part of the overall education financing package. As supplemental borrowing becomes more widespread, it will be increasingly important for financial aid providers to continue to learn more about the options families have to finance their children's college education.

Endnotes

[1] Enrollment Management Consultants, "MHEAC/TERI Parent Survey of Financing Education: Final Report," 1987, p. 24, 25.

[2] Marguerite J. Dennis, "First Impressions: The Impact of Reauthorization on the 1986-87 Academic Year as Report by Sixty-One Financial Aid Administrators," Georgetown University, Washington, D.C., 1987.

The New England Student Loan Survey: The Impact of Student Loans on Borrowers

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The New England Student Loan Survey was conducted to gain insight into the impact of student loan payments on recent graduates. The study was initiated and funded by the New England Education Loan Marketing Corporation (Nellie Mae) and the Massachusetts Higher Education Assistance Corporation (MHEAC). The research was carried out by Sandy Baum, Associate Professor of Economics at Skidmore College, and Saul Schwartz, Associate Professor of Economics at Tufts University.

The study was designed to gather information both on the attitudes expressed by borrowers and on the their objective economic behavior. The data came primarily from a mail survey sent out to a random sample of 2000 borrowers in repayment whose loans are guaranteed by MHEAC and have been purchased in the secondary market by Nellie Mae. The results are based on the 1350 complete surveys received. This unusually high response rate of nearly 70 percent contributes considerably to the reliability of the results.

What follows is a brief summary of the study. Both a more detailed summary and the complete report are available either from the authors or from the sponsoring agencies.

Characteristics of the Respondents

The sample includes only individuals who applied for Guaranteed Student Loans during or after calendar year 1982. Those who declared themselves independent of their parents were excluded, as were those whose loans were not in repayment status as of May, 1987.

The sample, like the Massachusetts population from which it was drawn, is approximately 94 percent white.

Median age is 26 years. About a quarter of the respondents are married and 37 percent are living with one or both of their parents.

The first school attended after high school by 69 percent of the respondents was a four-year institution and 60 percent have earned at least a B.A. degree.

Median household income for the respondents is about $25,000. 90 percent are currently employed. Half have purchased new cars and another 35 percent own previously used cars. One-fifth of the respondents own their own homes.

As expected, educational debt accumulated by these respondents is relatively high compared to that measured in previous studies. 44 percent have monthly payments exceeding $100 and 17 percent pay over $150 a month. Average total indebtedness is about $7400, which is at the lower end of the range considered "unmanageable" in recent attempts to define manageable debt levels for college graduates in the mid-1980's.

Summary of Findings

Borrowers reported that student loans significantly increased their access to and choice among post-secondary institutions. Almost 70 percent said the availability of loans was very important in allowing them to continue their educations after high school. About 55 percent said the loans were very important in allowing them to enroll in the particular institution they attended. A similar majority of borrowers felt that the availability of loans allowed them to stay in school to complete their degrees. Individuals from low-income family backgrounds responded most positively to questions on the benefits they received from the student loans. This group was also, however, most likely to report that concern over accumulating debt had prevented them to devote fewer years to their education than they otherwise would have.

About half of the respondents reported that they experience no hardship in connection with their student loan payments. On the other hand, according to the several measures of burden used, approximately 30 percent of the respondents feel significantly burdened by their loans. With other factors held constant, higher monthly loan payments significantly increase the degree of hardship borrowers attribute to their student loan obligations.

There appears to be a gap between borrowers' subjective perceptions of burden and the objective impact of loan payments on their economic behavior. When other variables are held constant, monthly loan payments do not have a significant impact on whether or not respondents own a house or a new car, or whether they have moved out of their parents' homes.

Conclusions

The results of the New England Student Loan Survey suggest that current levels of student borrowing are not "mortgaging a generation." The borrowers surveyed are carrying average debts and making average monthly payments which, by existing standards, might be expected to be "unmanageable." The evidence strongly suggests, however, that loan payments are not significantly affecting the ability of repayers to enjoy the consumption patterns typical of similar college graduates without high loan payments.

These results must be interpreted with caution. In addition to being geographically and demographically specific to Massachusetts, the sample includes only individuals who participated in the GSL program. Thus, those with high debt levels can be compared to those who borrowed less, but not to those who did not borrow at all. The survey also provides no evidence on those high school graduates who have chosen not to attend college because of the prospect of heavy debt obligations.

Because of the influence of the size of monthly payments on perceptions of hardship, these feelings can be expected to increase over time if loan payments grow in relation to borrower earnings. The potential costs of student loans must, however, be weighed against the significant benefits of loans perceived by a large majority of borrowers, particularly those from low-income family backgrounds. The student loan program is clearly succeeding in its goal of increasing access and choice in higher education for lower and middle-income students. Still, many high school graduates do find their options restricted because they are required to undertake heavy future obligations in order to continue their educations.

In sum, the results indicate that the current public concern over student debt is rooted in the reality of a sizeable number of graduates who feel unduly burdened by their debts. However, the hardship perceived by most of these borrowers is not reflected in their consumption patterns.

Borrowing Patterns Among Graduate and Professional School Students

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Introduction

This paper will address two primary questions:

(1) What factors account for the different borrowing patterns among graduate and professional school students? and;

(2) If we find at some point that certain sub-groups of graduate and professional school students are over borrowing and experiencing debt burden problems, what policy options can help to address these problems?

It is important to note that in general, financial aid policies among the various graduate and professional school disciplines/fields (e.g., medicine, arts and sciences, etc.) are very diverse and are based on a varying mix of need and merit. Given these differences, it is necessary to view both data and policies concerning graduate and professional school student financial aid in a disaggregated form and not lumped together as "graduate/professional school students financial aid".

Borrowing Patterns Among Graduate and Professional School Students

Borrowing levels among graduate and professional school students vary by field of study (e.g. medicine, divinity, etc.), by institution type (e.g., public vs. private), by institution within public/private categories (e.g., Yale, Princeton in the private category and University of Minnesota and University of Florida in the public category), and by degree program (e.g., Masters degree, Ph.D., M.D., etc.). The overall cumulative education indebtedness of graduate and professional school students is also influenced by the extent to which an individual used loans to finance his/her undergraduate education, a factor over which

graduate and professional schools have no control. A recent survey showed that the average indebtedness for undergraduates who borrow was $6,685 for borrowers attending public institutions and $8,950 for borrowers attending private institutions[1].

Although there is not presently a standard and reliable source for data on the cumulative education debt levels (including undergraduate borrowing) of graduate and professional school students, some existing sources of data do provide some general insights and trends. For example, an analysis of data on individuals who filed the Graduate and Professional School Financial Aid Service (GAPSFAS) form between 1981 and 1983 (see Appendix for detailed statistics) shows that generally speaking, medical and dental school students borrow more on average than do law school students, business school students, and arts and sciences students[2] and that borrowing levels among graduate and professional school students in all disciplines/fields are growing. These trends are also confirmed by a recent Georgetown University study[3].

Despite the current lack of precise data on borrowing by graduate and professional school students, we can point to some specific factors that determine general borrowing patterns. To a great extent, borrowing patterns among graduate and professional school students are a reflection of the general philosophy implicit in financial aid policies for a particular field of study. For example, a 1973 Carnegie Commission Report notes:

> Advanced professional students in such fields as law, medicine, and dentistry have been predominantly self-supporting (i.e., are expected to use primarily loans to finance their education) . . . chiefly on the argument that the private returns to investment in professional education are high and that therefore students could be expected to borrow against future earnings . . .By contrast, in the arts and sciences, a high proportion of doctoral students have traditionally been supported by federal, foundation, or institutional fellowship funds or appointments to teaching or research assistantships. This support has developed largely because societal returns have appeared to be significantly high and private returns relatively low in the academic disciplines[4].

Simply stated, prevailing "macro" level (i.e. , federal government, foundations, etc.) philosophies of and policies on student financial assis-

assistance significantly influence borrowing expectations, patterns, and levels among graduate and professional school fields and disciplines.

In addition to the broad "macro" level factors discussed above, several institutional factors and factors related to field of study/discipline also significantly influence the extent to which loans are used. These factors are best discussed in relation to the total overall cost of a particular degree program. Generally and simplistically speaking, the total cost of a particular degree program to a student equals a student's annual expense budget (which includes all costs associated with attending the degree program, i.e., tuition, room, board, books/supplies, transportation, and personal expenses), multiplied by the number of years it takes to complete the degree program. Hence, a one-year masters degree program in business with a student budget of $20,000 will have an approximate total cost of $20,000 and a 3-year law degree program with a $20,000 student budget will cost roughly $60,000.

An institution's financial aid packaging policies, that is the types (grants, loans, jobs) and levels (dollar amount) of student financial aid it awards, will determine the extent to which a student will need to use loans to finance his/her degree. For example, if an institution's financial aid packaging policy is primarily loan-based, which is the case for many graduate and professional degree programs such as medicine, dentistry, law, and business, a student's financial need might be met with one or more loans. Alternative packaging policies might reduce the loan amount and award a grant and/or job to help meet the financial need. The important point to be made here is that an institution's financial aid packaging policy (or lack thereof) has a significant and direct effect on the levels of indebtedness of its students.

A graduate/professional school student's field of study/choice of degree program will also play a direct role in determining his/her cumulative education debt level. As was mentioned above, policies and philosophies of the federal government and foundations regarding financial aid tend to set the tone for the extent to which sub-groups of graduate and professional school students will use loans to finance their education. In addition, each field of study/degree program tends to embody a particular pattern of financial support for students (e.g., self-help through borrowing in the fields of medicine, dentistry, law, and business; grant/fellowship/research assistantship support in the arts and sciences). The differences in the embodied patterns of student financial support are reflected in the different levels of borrowing that result among graduate and professional school fields and degree programs.

As graduate and professional school tuitions, student expense budgets, and self-help expectations (i.e., the amount a student is expected to borrow or earn through employment) rise, and as students enter graduate and professional schools with higher undergraduate debts, the question arises: What can we do if we find that at some point in the future that graduate and professional school students have over borrowed and have education debts that are unmanageable? The question is not a new one, nor is it an easy one to address. However, some of the policy options for addressing this potential problem and the possible responses graduate and professional school student might make are worth reviewing.

Policy Options/Responses

The author would argue that policy options/responses to address unmanageable education debts fall into two broad categories. The first category consists of options/responses which lower borrowing levels. The second category includes various strategies/responses which do not lower debt levels, but rather, make existing loan levels more manageable. It will be helpful to examine these two sets of policy options/responses in more detail.

Policy Options/Responses Which Lower Debt Levels

If it can be determined that certain groups of graduate and professional school students have over borrowed and that their education debts are becoming unmanageable, one possible set of solutions to this problem could involve lowering debt levels. Specific strategies that could bring this about include the following:

(1) Increase the level of grant support and decrease the loan component of financial aid packages;

(2) Increase the employment component of financial aid packages and reduce the loan component;

(3) Students might choose to attend graduate/professional school on a part-time basis rather than on a full-time basis;

(4) Students might choose to attend less expensive graduate/professional schools and/or attend graduate/professional schools whose financial aid policies are less loan-based; and at the extreme,

(5) Students might decide not to go to graduate/professional school at all.

The costs, benefits, constraints, and consequences of each of the above alternatives are very considerable. Both students and the graduate/professional schools they attend are affected in different ways by each option.

Although the debt burden issue could be resolved quickly and neatly by simply providing bigger grants to students and reducing the loan component of their financial aid packages, the cost constraints of this approach make this option virtually impossible; where would this additional grant money come from? As has been discussed above, the federal government has, in recent years, shifted its financial aid dollars away from grants toward loans; a shift in the opposite direction appears unlikely in the near future. Other potential sources of additional grant money include states, foundations, corporations, and colleges/universities themselves. However, given the existing constraints and competing demands on these institutions, significant additional funding for grants to graduate and professional students is uncertain at best. In short, replacing loans with grants is an ideal, but unlikely solution.

The notion of working more and borrowing less as a way of lowering graduate/professional school debt is limited by time constraints facing students in certain degree programs. For example, degree programs such as medicine and dentistry require a commitment of nearly all of one's time leaving little or no time for employment. Graduate/professional students in such fields as education, arts and sciences, and divinity are more able to work while they are pursuing their degrees.

Clearly, working more enables an individual to rely less on loans; however, there are certain consequences. For example, working too many hours at a job may take time away from a student's academic work and may affect the quality of one's studies. In addition, working longer hours may increase the amount of time it takes for an individual to complete his/her degree.

Attending graduate/professional school on a part-time basis instead of a full-time basis as a means of reducing reliance on loans is accompa-

nied by the same major constraints and consequences (i.e., time factors) of the "working more" option. As was suggested above, graduate/professional study in certain fields (e.g., medicine, dentistry) requires full-time study; part-time study is not an option. Part-time graduate/professional study in such fields as business, education, law, etc. is possible (although not common at top-ranked schools). As a result, students in such fields can reduce their reliance on loans by attending part-time (thus paying less tuition at a given time).

The major consequences of the part-time study option (for fields of study/degree programs where it is actually a possibility) for reducing one's reliance on loans is that it takes longer (sometimes much longer) to complete one's degree program. In addition, the concern is sometimes raised that pursuing a graduate/professional degree on a part-time basis can take away time and effort from one's studies and can possibly have a negative effect on the quality of one's academic work.

The option of reducing one's reliance on educational loans by attending a less expensive graduate/professional school or a graduate/professional school whose financial aid policies are less loan-based is an option that would have potential negative consequences for high cost graduate/professional schools with loan based financial aid policies.

Two major constraints which accompany this particular option are that: (1) in many cases, high cost graduate and professional schools are perceived as high quality institutions so students may believe that lowering their reliance on loans by choosing to attend a less expensive institution may result in a lower quality education and/or a lower return on investment (i.e., lower future income potential) and (2) as was detailed above, the prevailing financing patterns for graduate and professional degrees vary by field of study; in some cases a less expensive/less loan-based alternative may not exist in certain situations (e.g., medical degrees are generally financed through loans regardless of what institution one attends).

Finally, another option for lowering one's reliance on loan financing is to choose not to attend graduate or professional school at all. For an individual choosing this option, the issue can be characterized as follows: the future return on investment/monetary benefits (i.e., increased earnings) of graduate and professional education do not outweigh the burden of student loan debt required of individuals in order to pursue a particular graduate or professional degree. Data on such decisions can be derived from surveys of individuals who are accepted to a particular graduate/professional degree program but decide not to

attend. A second source of information on this issue might also be surveys of individuals who do not apply to graduate/professional schools at all due to the fact that the use of loans would be expected as the primary source of financial support. (Identifying these individuals is admittedly quite difficult.)

Policy Options for Making Existing and Future Educational Debts Manageable

A second set of potential solutions to unmanageable debt levels among graduate and professional students involve not lowering debt levels, but rather, making existing and future debt levels manageable. Some specific strategies that serve to make educational debt levels manageable (but do not lower them) include:

(1) Extending the loan repayment on educational loans from the present 10 years to 15, 20, or 30 years;

(2) Modifying repayment schedules from existing fixed terms (e.g., equal payments over 10 years) to a graduated repayment scheme (e.g., smaller payments in early years, larger payments in later years);

(3) Offering borrowers the opportunity to consolidate their educational loans, converting multiple loan payments into a single payment;

(4) Making loan deferment/loan forgiveness plans available to borrowers with high educational debts and low salaries; and

(5) Providing income-contingent loans.

As was the case with the set of policy options which were discussed previously, the five policy options in this category vary with regard to costs, benefits, constraints, and consequences. It will be helpful to review each of the five options in more detail.

Extending the loan repayment period for educational loans from the present 10 years to a longer repayment period (15, 20, or 30 years) makes loans more manageable by lowering the required monthly payment. However, since interest accrues for the duration of the repay-

ment period, the total cost of the loan (principal plus interest) becomes higher as the repayment period is lengthened.

In addition to increasing the total cost of the loan to the borrower, stretching out the repayment period also raises the lender's costs. Balderston notes this as follows: "Very long periods of loan amortization would entail high costs of administration and record-keeping in loan repayment; so it is easy to see why lending agencies prefer to keep the amortization period as short as they can"[5]

Another way to make educational loans more manageable is to change the existing fixed repayment schedule (equal payments over 10 years) to a graduated repayment scheme (e.g., smaller payments in the early years of repayment, larger payments in the later years). The underlying assumption of this approach is that the individual's salary is at its lowest in the year following graduation and increases over time from this point. Since the repayment period is not extended, additional administrative costs and the complexity associated with longer repayment are not involved in the graduated repayment option[6].

While a graduated repayment schedule does help to alleviate debt burden in the low-salary, early repayment years, the approach can result in debt burden problems in later years. A 1980 Congressional Budget Office report offers both a caveat and an alternative approach:

> "In keeping initial repayments low one must be careful not to create excessively high future payments. Any constantly increasing graduated repayment scheme that appreciably reduces initial repayments must also appreciably increase future repayments, while any scheme that holds future repayments to only marginal increases will not reduce the initial repayment burden by much. On the other hand, gradually increasing repayments only during the first few years of the loan can appreciably reduce the initial burden without imposing a serious burden in later years"[7].

A third approach to making educational loans more manageable is loan consolidation. Specifically, this makes loans more manageable by requiring that the borrower make only one monthly payment on a single consolidated loan instead of multiple monthly repayments on several loans. (Note: In addition to requiring only one monthly payment, the repayment period is sometimes extended for borrowers who consolidate other loans).

Loan consolidation is now permitted under recent amendments (passed in September 1986) to the Higher Education Act of 1965[8]. To qualify, a borrower must have a portfolio of at least $5,000 in federally backed student loans (e.g., GSL, Perkins Loans, etc.). One organization authorized to consolidate student loans is the Student Loan Marketing Association (Sallie Mae). Sallie Mae's consolidation option provides for a repayment period of 10 to 25 years and an interest rate of the weighted average of the loans in a student's loan portfolio. Both fixed payment and graduated payment options are available.

Clearly, the primary advantage of loan consolidation is that the borrower has only one monthly payment rather than several, making one's loan burden significantly more manageable. The down side of the consolidation option is that the borrower loses the lower interest rate of the original loan and the longer repayment period (in combination with the higher interest rate) increases the total cost of the loan.

At least one observer is unenthusiastic about the potential merits of loan consolidation: "consolidating and refinancing loans present a financial windfall for lending institutions and secondary markets rather than contribute to the relief of individual borrowers."[9].

A wide variety of loan deferment provisions and loan forgiveness plans serve to make student debt burdens more manageable. These provisions and plans are offered by the federal government and/or colleges and universities.

Deferment provisions allow borrowers to delay the repayment of their loans (although not usually to reduce their loan payments). For example, repayment on federally backed loans can be deferred if a borrower serves in the Peace Corps or military for a period of three years, serves as a volunteer in certain domestic service/anti-poverty programs, or does qualified internship work in medicine or public health[10]. Deferment of loan payments makes debt burdens more manageable by suspending loan payments during periods when a borrower's income is relatively low.

An increasing number (approximately twenty at present) of graduate and professional schools (primarily law, government, and business schools) are offering loan deferment and forgiveness programs for graduates who take low-paying public-sector/non-profit jobs after graduation[11]. These programs vary from university to university, but share the following characteristics:

- A graduate must be earning an average of $30,000 or less to qualify;
- Schools help alumni pay off loans by lending them a portion of the money (typically at no interest), to do so;
- Forgiveness of loans starts after a graduate has remained in a program for a specified period of time (usually three years, but as many as ten); and
- Graduates who leave the program to take a higher-paying job before their loans are forgiven must repay the money their university lent them[12].

Some programs cover education debts incurred at the undergraduate level, in addition to graduate/professional school debts. The costs of loan forgiveness programs are generally covered by the university offering the program. The major costs (aside from the dollar amount of forgiven loans) include staffing costs for administrative tasks such as salary certification of graduates, review of tax returns, and loan payment calculation. The more complex the forgiveness program, the higher the administrative costs.

In most cases, loan forgiveness programs are established to make it possible for graduates with high debt levels to take jobs in lower-paying, but socially important positions. For example, the Harvard Law School's Low Income Protection Plan (LIPP), established in 1978, was one of the first loan forgiveness programs to be offered to indebted students entering lower paying public service/public interest work. Under the most recent LIPP provisions (1987), all law school debts are covered for all Harvard Law School graduates who take jobs with annual salaries from $20,000 to $29,000, are required to devote a small percentage of their salary to loan repayment; the remaining portion of the required payment is forgiven. An annual salary increase allowance is built into the provisions of the program.

The Kennedy School of Government at Harvard recently created a program that forgives or defers loan payments for its graduates who enter low-paying public-sector jobs after graduation. The program forgives all loan payments for graduates who earn less than $15,000 per year. Graduates who earn from $15,000 to $30,000 annually after graduation are eligible to defer loan payments in excess of 10 percent of their gross annual income. Graduates with annual earnings of less than $30,000 for more than five years following graduation have loan

payments in excess of 10 percent of their annual income forgiven. The $30,000 income ceiling will be adjusted annually by the inflation rate.

A Kennedy School administrator notes that the goal of the loan forgiveness program is to "prevent any graduate from the (Kennedy) School from being precluded from the public service jobs for which they have been trained because of an unmanageable loan burden."[13] The average loan debt for KSG students graduating in 1987 was estimated to be $19,000. KSG officials estimate that up to one-half of the school's graduates could be eligible for some aspect of the new program.

A fifth approach to making educational debts more manageable is to provide income-contingent loans. These loans link repayments to the borrower's salary by requiring that individual borrowers devote a fixed percentage of their income to student loan repayment. The dollar amount to be paid each month and the total repayment period will vary according to salary level. (Note: Income-contingent lending is also referred to as "deferred tuition, tuition postponement, and pay-as-you-earn"[14].

The United States Department of Education has recently established a pilot Income Contingent Loan (ICL) program[15]. This program has been characterized by Bruce Carnes, Deputy Undersecretary (Budget and Planning) of the Department of Education as, ". . . the single biggest advance in the financing of higher education for students in the last 15 years."[16]

The new ICL program is currently operating on a limited basis ($5 million) at 10 institutions[17]. ICL's are not subsidized by the federal government; interest is charged from the receipt of the loan at the prevailing Treasury Bill rate plus 3 percent (8.6 percent as of early 1987). There is not a fixed repayment period for ICL's; students' monthly loan payments are set at a level no higher than 15 percent of a borrower's gross annual income. (It is interesting to note that 15 percent of gross annual income was the highest definition of manageable educational debt among the proposed definitions discussed earlier in this paper).

According to the present provisions of the ICL program, eligible undergraduates at participating institutions can borrow up to $17,500 over 4 years. Participating institutions administer the loans, check borrowers' income each year, calculate and adjust (if necessary) repayment amount, an collect loan payments[18]. If the pilot ICL program proves to be effective, the Department of Education hopes to expand the program to 1,500 institutions and include graduate and professional students;

proposals also call for increased ICL borrowing limits (from the current $17,500 to $50,000).

The ICL program currently has strong support of Reagan Administration officials. Commenting on the potential benefits of the ICL program, Undersecretary of Education (Budget and Planning) Carnes suggested that the new program, "would help reduce defaults (which currently cost the Federal Government more than $1 billion annually) that result when fixed repayment rate under the GSL program proves too burdensome for recent graduates' incomes."[19] Carnes also noted that by participating in the ICL program, "students planning to enter low-income fields would be able to take out loans and still meet their repayment obligations even if they went to an expensive private school."[20]

Income-contingent loans represent an effective and at present, politically popular approach to addressing the educational debt burden issue. However, some of the consequences of the ICL program include: (1) higher total borrowing costs for students due to higher interest rate and extended repayment period, and (2) higher administrative costs to participating institutions due to the complex nature of certifying borrowers' salaries, calculating and adjusting loan payments, etc. . . .

The cost and perceived benefits of the pilot ICL program will be influential factors in the future of this approach to the student debt management issue.

The Future of Borrowing and Debt Burden Among Graduate and Professional Students

Although there is not at present compelling statistical evidence that graduate and professional school students have over borrowed on a large scale, it seems both prudent and responsible for administrators and policymakers to monitor borrowing levels among graduate and professional school students and to be attentive to the potential consequences of steadily growing tuitions and self-help expectations.

Good data and studies may not be sufficient to identify and address emerging education debt problems. As Hansen notes:

> Better research, even if we had it might not tell us what we need to know when we need to know it. Sometimes analysis is a conservative force since it may be hard to document a problem until it becomes so serious that it is overwhelming[21].

Recent economic events such as the stock market plunge have caused many people to pause and reflect on their present and future financial position. Perhaps too it might be advisable to pause and think about the potential impact of the growing use of loans by graduates and professional school students.

Endnotes

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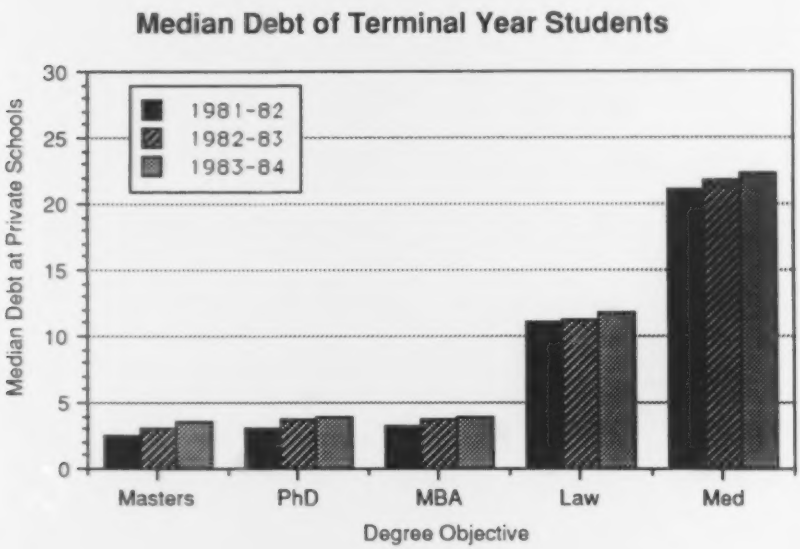
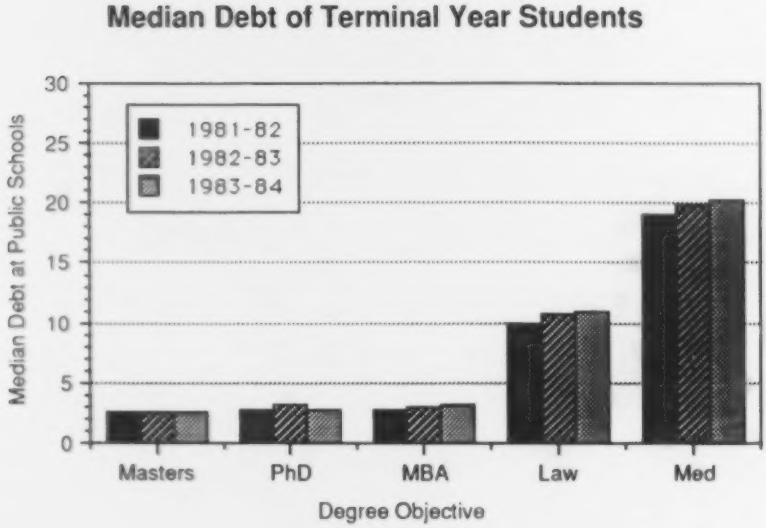
Appendix

Median Debt Profiles





Section IV

Projecting the Impact of Congressional Methodology

Projecting the Impact of Congressional Methodology

Abstracts

The Impact of Congressional Methodology on New Jersey Dependent College Undergraduate Aid Eligibility,

Lutz K. Berkner

Congressional Methodology will have a major impact on New Jersey dependent college undergraduates by replacing the $700/$900 "summer savings" student contribution with an amount equal to 70 percent of actual prior year student earnings. The impact will be proportional to family income and class level: the higher the family income and the higher the class level, the greater the average student earnings and the greater the reduction in federal aid eligibility. Simulations using the Fall 1987 reported student earnings data (which was unverified) showed that 45 percent of New Jersey dependent college federal aid recipients would have an average reduction in aid eligibility of about $1500, or an aggregate reduction in eligibility of $44 million. Fall 1987 GSL borrowers would lose about 20 percent of their loan dollars and one-quarter of the borrowers at public colleges would lose all GSL eligibility. Simulations using fall 1987 data indicated that 40 percent of the New Jersey state grant recipients would receive reduced awards if the eligibility criteria were changed from UM to CM. Fall 1988 applicant data shows that these effects were underestimated, and that over 60 percent of the applicants have had their aid eligibility reduced by an average of $2,000. Although New Jersey will not use CM to determine eligibility for state grants, CM has created an "overpackaging" problem on the campus which will require a change in aid packaging procedures to prevent federal regulations from reducing state aid eligibility.

The Impact of Congressional Methodology on the Minnesota State Scholarship and Grant Program, *Gerald L. Setter*

Congressional Methodology has replaced Uniform Methodology, the need analysis used in the Minnesota State Scholarship and Grant Program, as the "standard" need analysis. Incorporating Congressional Methodology would decrease state spending by about $10 million. The impacts would be concentrated among those applying as independent students and attending public two-year institutions.

Impact of Congressional Methodology on University of Minnesota Twin Cities Campus Financial Aid Applicants, *Reed Carpenter*

This paper examines the consequences that Congressional Methodology holds for five student categories that compose the financial aid applicant population at the University of Minnesota's Twin Cities campus. To evaluate the efforts of these changes on campus-based appropriations and campus-based entitlement aid, a worst case example was used. The lowest student expense budget used at the University of Minnesota Twin Cities campus for the 1987-88 academic year was applied to all students included in the sample. Expense budgets for students with dependents or spouses were reduced under CM to reflect new federal policy.

In the competition for campus-based appropriations, married students with no children are the big winners, while single students with no dependents and married students with dependents lose relatively. Students with dependents or a spouse maintain their priority relative to students with no dependents. In aggregate, students will exhibit less need.

The Impact of Congressional Methodology on New Jersey Dependent College Undergraduate Aid Eligibility

Lutz K. Berkner
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Introduction

The major change introduced by Congressional Methodology (CM) for dependent undergraduates is that the student's portion of the "Expected Family Contribution" (EFC) will be based on actual student earnings in the prior calendar year. Under the current "Uniform Methodology" (UM), actual student earnings are generally not taken into account; instead there is a fixed amount ($700 for freshmen, $900 for others) representing "summer savings" included n the EFC. With Congressional Methodology, which will be the required need analysis method for all federal programs except Pell grants starting in 1988, the $700/900 will be the minimum student contribution. If 70 percent of actual after-tax student earning exceeds this minimum, this becomes the new, higher student contribution. This generally means that any student who earns more than about $1,200 in the prior year will be eligible for less aid.

This study simulates the effect of the "Congressional Methodology" need analysis on dependent college undergraduates from New Jersey who were eligible for financial aid in the fall of 1987. It excludes graduate students, students at proprietary vocational schools, and self-supporting "independent" students. Approximately 80 percent of New Jersey college undergraduate aid recipients in 1987 were dependent students.

The effect of using CM for need analysis on dependent college undergraduates was studied from three perspectives:

1. The effect on aggregate "need" (aid eligibility) of all dependent college undergraduates from New Jersey who qualified for federal student aid in the fall of 1987.

2. The effect on the GSL loan eligibility of dependent college undergraduates from New Jersey who received a GSL loan in the fall of 1987.

3. The potential effect on the New Jersey state Tuition Aid Grant (TAG) program. This program is limited to New Jersey residents at New Jersey colleges.

The results of the simulations using fall 1987 reported student earnings are similar in all three cases. Congressional Methodology apparently would result in the reduction of financial aid for 35 percent-45 percent of all currently eligible dependent college undergraduates. The average reduction in aid eligibility for those affected would be between $1500-$1700.

(1) The effect on the aggregate "need" of New Jersey students

In the Fall of 1987 there were about 67,000 dependent college undergraduates from New Jersey eligible for federal aid using Uniform Methodology to determine "need" (college costs minus the Expected Family Contribution).

Table 1 shows the effect of recalculating the Expected Family Contribution for these students using Congressional Methodology. About 6 percent would lose all aid eligibility; another 38 percent would be eligible for less aid. The aggregate "need" would drop by about $44 million, or over 10 percent. Average aid eligibility per student would be reduced by $650, but this includes the 56 percent who would not be affected. The 38 percent receiving reduced aid would lose an average of $1,400; those who became ineligible would lose over $1,900.

The impact is greatest at the lower cost New Jersey public institutions, where total aid eligibility would be reduced by about $18 million, or 18 percent. At higher cost in-state independent colleges and out-of-state institutions, the reduction would be about 10 percent.

Student earnings of dependent aid applicants from New Jersey are directly related to family income and class level: the higher the family income and the higher the class level, the greater the amount of prior year student earnings. About one-third of students with family incomes under $12,000 would be eligible for less aid because of their earnings; nearly half of those with family incomes over $40,000 would receive less aid. The average amount of the reduction, however, is greater for those lower income students who are affected. Students are

more likely to work and increase their earnings as they advance through college: while about one-third of the incoming freshmen would lose aid eligibility, over half of the seniors would be affected.

(2) The effect on the New Jersey GSL program

In the Fall of 1987 there were about 29,000 dependent college undergraduates receiving $68 million in GSL loans guaranteed by the New Jersey state agency (another $70 million in GSL was borrowed by graduate students, proprietary school students, and self-supporting college students). This represents a 20 percent decline in the New Jersey GSL program from the prior year. Much of this decline can be attributed to the introduction of Uniform Methodology in determining GSL "need" in 1987, but some of it is due to a loss of state agency loan volume to national guarantors.

Table 2 shows the effect of Congressional Methodology on 1987 GSL dependent borrowers. About 12 percent of the dependent undergraduate borrowers would lose their GSL eligibility entirely; at the lower tuition public colleges about one-quarter of the current borrowers would become ineligible. Another 28 percent would have the amount that they may borrow reduced by the average of $860. In the aggregate, New Jersey dependent undergraduates would lose $13 million in GSL funds or about 20 percent of the amount borrowed in the Fall of 1987. The impact is again directly proportional to family income and class level.

(3) The effect on students receiving New Jersey Tuition Aid Grants

The New Jersey Tuition Aid Grant (TAG) program is based on Uniform Methodology for dependent students to calculate a "New Jersey Eligibility Index" (NJEI) which determines the size of the award. Like many other states, New Jersey considered adopting Congressional Methodology for the state grant programs starting in 1988. Our analysis showed that about 40 percent of our current state aid recipients would have their Tuition Aid Grants reduced or eliminated if New Jersey adopted Congressional Methodology. The total loss to students in state grant aid alone would have been $6 million, or over 10 percent of the funds currently available. New Jersey will not adopt Congressional Methodology for its programs.

Table 3 shows the results of the simulation on the TAG program using 1987 reported student earnings. Thirty-eight percent of the 1987 state grant recipients would have their student contributions increased by over $100. The average student contribution for those with an increase

would be about $2,700 compared to a current average of $955. That is, the average EFC would be increased by about $1,700 for the 12,000 students affected, resulting in an average reduction of $500 in state grant awards.

The "Overpackaging" Program

Even though New Jersey will not use Congressional Methodology for state grant awards, the wholesale adoption of CM by campuses to determine the standard EFC for all students could in fact result in the same $6 million reduction in state grant awards because of aid "overpackaging." If campuses follow the traditional financial aid packaging procedure of subtracting the (CM) EFC from Educational Costs to establish "need," then 15 percent of the current dependent Tuition Aid Grant recipients would lose an average of $1,400 in state grants because the amount of the state grant would exceed the federal "need" determined by Congressional Methodology (see Table 4).

In order to maintain the eligibility of students for the total amount of state grant aid to which they are entitled, a new aid packaging strategy must be adopted to determine if there is any remaining federal aid "need" after Pell and state grant awards.

Since the CM EFC is not required unless federal campus-based aid or GSL are included in the aid package, packaging procedures should start by subtracting the Pell Grant (if any) and state grant awards from Educational costs, and then subtracting the CM EFC. If any federal "need" remains, it can be met through campus-based or GSL funds. If the sum of Pell and state grant awards is greater than the CM EFC, there is no requirement to use the CM EFC for packaging. Whether all campuses will adapt their procedures to maintain maximum student aid eligibility remains to be seen.

The Actual Impact Will Be Greater

All of the simulations discussed above were based on the dependent student earnings reported on the 1987 financial aid forms. Since the Uniform Methodology calculations did not normally include a contribution from student earnings, the student earning data was neither required nor verified prior to 1988.

Applications received through June for the 1988-89 state grant awards indicate that student earnings have been substantially undereported in the past, and that the simulations shown above underestimate the full impact of Congressional Methodology on dependent students. On the actual applications for 1988, nearly 60 percent (instead of the 40 percent estimate) of the dependent students have had their earning contributions increased above the $700/900 minimum, for an average loss of $2,000 in aid eligibility (instead of $1,500). Average aid eligibility for the 60 percent affected has been reduced by two-thirds at the community colleges (from $3,100 to $900), reduced by half at the four-year public colleges (from $4,700 to $2,700) and reduced by one-quarter at independent colleges (from $8,700 and $6,800). The current estimates (June 1988) are shown in Tables 5 and 6.

Table 1
NEW JERSEY PELL AND GSL PROGRAMS
ESTIMATED EFFECT OF CONGRESSIONAL METHODOLOGY
FALL 1987 COLLEGE UNDERGRADUATES

STATUS DEPENDENT

	AID ELIGIBLE FALL 1987 UM	AID ELIGIBLE WITH CM	ELIGIBILITY CHANGE WITH CM			AGGREGATE NEED MILLIONS			AVERAGE AID ELIGIBILITY			AVERAGE AID CHANGE		
			NO CHANGE	LESS AID	NO AID	NEED UM	NEED CM	NEED CHANGE	NEED UM	NEED CM	NEED CHANGE	NO CHANGE	LESS AID	NO AID
	N	N	PCT	PCT	PCT	MIL $	MIL $	MIL $	AVG $	AVG $	AVG $	AVG $	AVG $	AVG $
SECTOR														
INDEPENDENT	9602	9242	57	39	4	74.7	67.7	6.9	7784	7056	-727	-2	-1644	-2139
4 YR PUBLIC	19971	18178	55	36	9	81.8	68.1	13.7	4098	3410	-686	-2	-1435	-1926
COMMUNITY C.	5240	4599	58	32	12	16.3	12.5	3.8	3115	2389	-725	-1	-1461	-2100
OUT OF STATE	32363	31177	57	40	4	237.7	218.6	19.0	7345	6755	-589	-3	-1314	-1776
TOTAL	67176	63194	56	38	6	410.6	366.9	43.5	6113	5463	-648	-2	-1406	-1929
AGI														
UNDER$12,000	11105	10798	65	32	3	77.9	71.0	6.8	7016	6401	-613	-2	-1637	-3121
$12-$18,000	7887	7595	59	37	4	55.2	49.7	5.5	7011	6311	-698	-1	-1559	-3046
$18-$24,000	8496	8141	56	39	4	58.3	52.2	6.0	6866	6153	-711	-2	-1515	-2735
$24-$30,000	8027	7570	56	38	6	51.8	46.4	5.3	6462	5789	-672	-2	-1409	-2248
$30-$40,000	11655	10846	54	39	7	67.8	60.2	7.5	5818	5172	-644	-2	-1337	-1716
$40-$50,000	8181	8361	51	40	9	47.5	41.6	5.8	5178	4533	-643	-3	-1283	-1462
OVER $50,000	10825	9883	52	39	9	51.8	45.4	6.3	4791	4200	-590	-3	-1201	-1324
CLASS LEVEL														
1	23842	22857	84	31	5	141.8	129.5	12.2	5948	5433	-513	-2	-1317	-1964
2	16710	15799	58	37	5	100.4	90.7	9.7	6012	5428	-582	-2	-1313	-1819
3	13950	13019	50	43	7	87.3	77.0	10.2	6262	5523	-738	-3	-1409	-1849
4	12674	11719	47	45	8	80.9	69.6	11.2	6390	5498	-890	-2	-1621	-2068
TOTAL	67176	63194	56	38	6	410.6	366.9	43.5	6113	5463	-648	-2	-1406	-1929

MARCH 31, 1988

Table 2

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
ESTIMATED EFFECT OF CONGRESSIONAL METHODOLOGY
FALL 1987 UNDERGRADUATE COLLEGE LOANS

STATUS DEPENDENT

	GSL LOANS FALL 1987 UM	GSL ELIGIBLE WITH CM	GSL ELIGIBILITY CHANGE			AGGREGATE LOAN DOLLARS			AVERAGE LOAN ELIGIBILITY			GSL ELIGIBILITY CHANGE		
			NO CHANGE	REDUCE LOAN	NO LOAN	GSL AMOUNT UM	GSL AMOUNT CM	LOAN DOLLAR CHANGE	GSL AMOUNT UM	GSL AMOUNT CM	LOAN DOLLAR CHANGE	NO CHANGE	REDUCE LOAN	NO LOAN
	N	N	PCT	PCT	PCT	MIL $	MIL $	MIL $	AVG $	AVG $	AVG $	AVG $	AVG $	AVG $
SECTOR														
INDEPENDENT	4586	3979	56	31	13	10.7	8.2	2.5	2335	1789	-546	0	-937	-1963
4 YR PUBLIC	5588	4321	36	41	23	8.7	5.6	3.0	1572	1019	-553	0	-665	-1236
COMMUNITY C.	551	409	44	30	26	0.7	0.4	0.2	1370	877	-495	0	-557	-1262
OUT OF STATE	18666	17265	69	23	8	47.3	40.2	7.1	2536	2155	-381	0	-950	-2139
TOTAL	29391	25974	61	28	12	67.5	54.6	12.9	2299	1858	-442	0	-860	-1737
AGI														
UNDER$12,000	3175	2868	65	26	10	7.0	5.9	1.1	2214	1867	-348	0	-808	-1464
$12-$18,000	2546	2293	64	26	10	5.7	4.8	0.9	2265	1890	-377	0	-835	-1625
$18-$24,000	3297	3004	64	27	9	7.8	6.4	1.1	2310	1951	-359	0	-784	-1629
$24-$30,000	3542	3144	63	26	11	8.0	6.7	1.3	2281	1912	-369	0	-708	-1675
$30-$40,000	5657	5002	61	28	12	12.8	10.4	2.4	2279	1849	-429	0	-849	-1667
$40-$50,000	4887	4328	57	30	13	11.4	8.9	2.5	2298	1789	-510	0	-904	-1786
OVER $50,000	6187	5337	57	30	14	14.7	11.2	3.4	2382	1824	-559	0	-978	-1949
CLASS LEVEL														
1	9224	8340	66	25	10	20.2	16.9	3.3	2192	1833	-359	0	-780	-1722
2	7210	6415	62	27	11	15.4	12.6	2.8	2149	1754	-396	0	-795	-1661
3	6683	5838	57	31	13	16.3	13.0	3.2	2444	1952	-493	0	-882	-1751
4	6274	5381	55	30	14	15.5	12.0	3.5	2476	1915	-581	0	-999	-1804
TOTAL	29391	25974	61	28	12	67.5	54.6	12.9	2299	1858	-442	0	-860	-1737

Table 3

ESTIMATED DEPENDENT TAG AWARDS FALL 1987
STUDENT CONTRIBUTION USING CONGRESSIONAL METHODOLOGY

SEPTEMBER 15, 1987

OSA RESEARCH: LKB/CCL

TOTAL MEM JERSEY	CURRENT STUDENT CONTRIB.	TOTAL TAG AWARDS	STUDENT CONTRIBUTION INCREASE WITH CM							STUDENT CONTRIBUTION INCREASE WITH CM							CM #	
			0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +	0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +	TOTAL SC > 0	SC INCR > 0
	MEAN $	N	N	N	N	N	N	N	N	%	%	%	%	%	%	%	MEAN $	%
NJEI/EFC																		
UNDER 950	847	10276	6763	415	480	414	330	240	569	73	5	5	4	4	3	6	2660	0.27
950-1349	899	2029	1203	144	152	106	116	74	165	61	7	8	5	6	4	8	2600	0.39
1350-1749	912	2144	1237	127	135	170	115	88	200	60	6	7	8	6	4	10	2826	0.40
1750-2149	927	1972	1094	147	159	119	135	86	171	57	8	8	6	7	5	9	2662	0.43
2150-2549	953	1803	981	135	167	121	100	77	166	56	8	10	7	6	4	10	2708	0.44
2550-2949	981	1584	858	115	125	113	107	61	165	56	7	8	7	7	4	11	2759	0.44
2950-3349	989	1410	742	108	133	105	86	57	144	54	8	10	8	6	4	10	2716	0.46
3350-3749	1016	1296	695	104	94	118	95	57	103	55	8	7	9	8	5	8	2629	0.45
3750-4149	1078	1037	553	92	110	82	59	47	94	53	9	11	8	6	5	9	2648	0.47
4150-4549	1066	982	525	84	96	89	59	31	98	53	9	10	9	6	3	10	2759	0.47
4550-4949	1088	890	509	65	81	65	47	41	82	57	7	9	7	5	5	9	2768	0.43
4950-5349	1156	794	436	53	78	77	54	31	65	55	7	10	10	7	4	8	2865	0.45
5350-5749	1132	738	392	69	69	52	59	29	68	53	9	9	7	8	4	9	2662	0.47
5750-6149	1105	460	257	30	49	34	33	19	38	56	7	11	7	7	4	8	2731	0.44
6150 +	1165	1713	991	145	136	132	107	61	141	58	8	8	8	6	4	8	2684	0.42
TOTAL	955	29126	17236	1833	2064	1797	1502	999	2269	62	7	7	6	5	4	8	2698	0.38
CLASS LEVEL																		
1	828	9889	6547	573	603	508	401	179	376	71	6	7	6	4	2	4	2316	0.29
2	1011	7583	4598	484	519	459	362	245	475	64	7	7	6	5	3	7	2669	0.36
3	1022	6018	3297	423	475	399	345	258	640	56	7	8	7	6	4	11	2830	0.44
4	1020	5636	2794	353	467	431	394	317	778	50	6	8	8	7	6	14	2972	0.50
TOTAL	955	29126	17236	1833	2064	1797	1502	999	2269	62	7	7	6	5	4	8	2698	0.38

*average CM student contribution for those whose SC increased

Table 4

FINANCIAL AID PACKAGING SIMULATION
FALL 1987 TAG AWARDS - DEPENDENT STUDENTS ONLY
REMAINING NEED AFTER TAG & PELL USING CONGRESSIONAL METHODOLOGY

SEPTEMBER 22, 1987

OSA RESEARCH: LKB/CCL

TOTAL		NO CHANGE IN NEED						DECREASE IN NEED						OVERPACKAGED						
	TOTAL DEPNT TAG	TAG		WITH PELL		CM EFC	REMAIN NEED	TAG		WITH PELL		CM EFC	REMAIN NEED	TAG		WITH PELL		CM EFC	REMAIN NEED	OVER-PACK-AGED $
	N	N	%	N	%	AVG$	AVG$	N	%	N	%	AVG$	AVG$	N	%	N	%	AVG$	AVG$	$000
NJEI/EFC																				
UNDER 950	9658	5089	53	4792	50	891	2755	3745	39	3292	34	1447	2367	823	9	433	4	3773	-957	-$786
950-1349	20291	12177	60	10822	53	1173	3144	6331	31	4181	21	2451	2400	1781	9	441	2	4538	-1014	-$179
1350-1749	21441	12451	58	9531	44	1556	3378	6711	31	3441	16	2958	2516	2281	11	601	3	5120	-1452	-$318
1750-2149	19721	10941	55	5981	30	1946	3398	6481	33	2141	11	3232	2602	2301	12	361	2	5086	-1270	-$290
2150-2549	18031	9641	53	2591	14	2348	3399	5951	33	871	5	3521	2632	2441	14	301	2	5605	-1564	-$382
2550-2949	15841	8361	53	1271	8	2746	3213	4971	31	391	2	4010	2468	2511	16	201	1	5712	-1449	-$364
2950-3349	14101	7861	56	591	4	3147	3132	4061	29	141	1	4303	2380	2991	21	371	3	5714	-1519	-$450
3350-3749	12941	6611	51	431	3	3546	2831	3671	28	51	0	4716	2297	2671	21	221	2	5936	-1475	-$393
3750-4149	10371	5071	49	271	3	3918	3131	3361	32	51	0	5081	2533	1961	19	71	1	6517	-1597	-$313
4150-4549	9821	4691	48	01	0	4344	2676	2991	30	01	0	5519	2427	2141	22	01	0	6853	-1729	-$370
4550-4949	8981	4191	47	01	0	4729	2575	2361	27	01	0	5831	2408	2351	26	01	0	6805	-1506	-$352
4950-5349	7941	3211	40	01	0	5128	2913	1891	24	01	0	6185	2559	2841	36	01	0	7091	-1609	-$456
5350-5749	7381	2881	39	01	0	5584	2420	1691	23	01	0	6529	2162	2811	38	01	0	7296	-1609	-$451
5750-6149	4601	2241	49	01	0	5908	2865	1161	25	01	0	7245	3591	1201	26	01	0	7917	-1498	-$179
6150 +	17131	7621	44	01	0	7897	3249	4651	26	01	0	8594	3865	5061	30	01	0	8529	-1502	-$760
TOTAL	285091	148021	52	79391	28	2395	3005	93491	33	44181	15	3276	2475	43571	15	6891	2	6031	-1402	-$6,048
CLASS LEVEL																				
1	96281	45521	47	20191	21	2682	3035	40091	42	26811	28	2219	2497	10871	11	2781	3	5552	-1204	-$1,299
2	74181	44811	60	26731	36	2201	2851	17751	24	6401	9	3784	2383	11631	16	2291	3	5564	-1306	-$1,508
3	59131	31401	53	17651	30	2329	3022	17091	29	5551	9	4090	2532	10641	18	1161	2	6344	-1501	-$1,585
4	55501	26501	48	14821	27	2316	3189	18561	33	5431	10	4224	2463	10441	19	741	1	6668	-1594	-$1,455
TOTAL	285091	148021	52	79391	28	2395	3005	93491	33	44181	15	3276	2475	43571	15	6891	2	6031	-1402	-$6,048

Table 5

NEW JERSEY TUITION AID GRANTS
EFFECT OF CONGRESSIONAL METHODOLOGY
ON STUDENT CONTRIBUTION IN FEDERAL AID PROGRAM

JUNE 28, 1988

FALL 1988

OSA RESEARCH: LKB/CCL

TOTAL NEW JERSEY	UNIFORM METHOD EFC	TOTAL TAG AWARDS	STUDENT CONTRIBUTION INCREASE WITH CM							STUDENT CONTRIBUTION INCREASE WITH CM							TOTAL SC INCREASE > 0	SC INCR > 0
			0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +	0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +		
	MEAN $	N	N	N	N	N	N	N	N	%	%	%	%	%	%	%	MEAN $	%
FAMILY INCOME																		
UNDER $6000	263	1580	937	157	90	86	77	66	167	59	10	6	5	5	4	11	1852	0 41
$6000-12000	413	2513	1335	212	176	208	155	105	324	53	8	7	8	6	4	13	1909	0 47
$12000-18000	845	3092	1422	321	251	293	217	148	440	46	10	8	9	7	5	14	2006	0 54
$18000-24000	1741	3189	1357	351	285	338	246	145	467	43	11	9	11	8	5	15	2126	0 57
$24000-30000	2641	2932	1108	357	266	358	241	172	430	38	12	9	12	8	6	15	1976	0 62
$30000-36000	3484	2474	879	344	223	317	204	146	361	36	14	9	13	8	6	15	1999	0 64
$36000-42000	4314	2016	724	280	179	228	175	142	288	36	14	9	11	9	7	14	2015	0 64
$42000 +	5539	3596	1142	501	414	495	304	244	496	32	14	12	14	8	7	14	1925	0 68
TOTAL	2584	21392	8904	2523	1884	2321	1619	1168	2973	42	12	9	11	8	5	14	1986	0 58
CLASS LEVEL																		
1	2466	7667	3712	975	635	765	527	341	712	48	13	8	10	7	4	9	1847	0 52
2	2444	5277	2371	658	450	554	390	253	623	45	12	9	10	7	5	12	1854	0 55
3	2682	4382	1562	503	433	492	345	302	745	36	11	10	11	8	7	17	1994	0 64
4	2778	4066	1259	409	366	510	357	272	893	31	10	9	13	9	7	22	2311	0 69
TOTAL	2584	21392	8904	2523	1884	2321	1619	1168	2973	42	12	9	11	8	5	14	1986	0 58

* average increase in student contribution for those whose SC increased

Table 6:
New Jersey Dependent College Undergraduates Average Eligibility for Student Aid Before and After Congressional Methodology

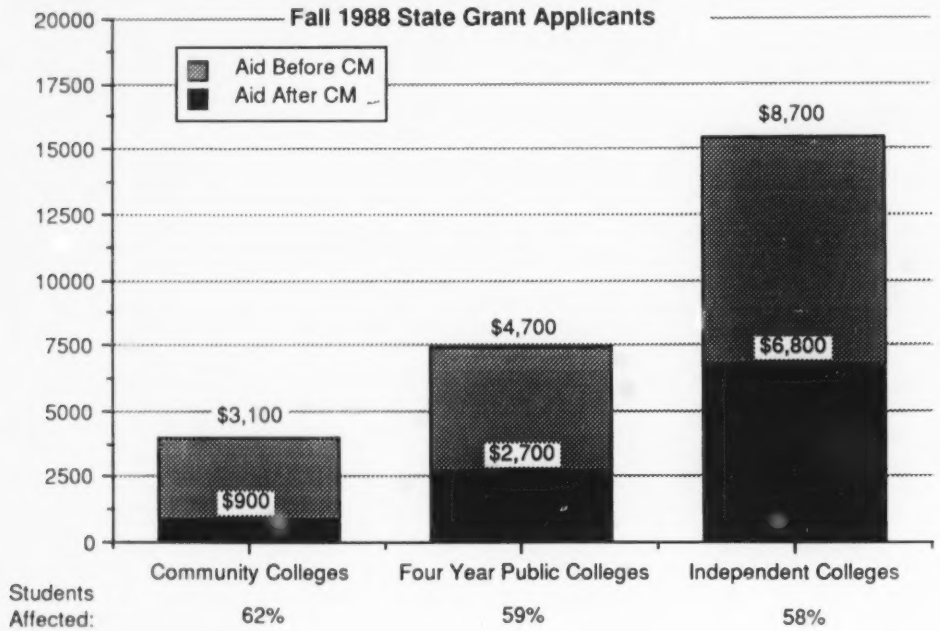

Table 7

GSL Default Rates, 1977-1985
Minnesota Residents and Those Attending Minnesota Institutions

Definition #1 - Volume of Loans in Default / Volume of Loans Issued

Year	Tech. Inst. (1)	Community Colleges (2)	State Univ. (3)	U. of Minn. (4)	Private 4-Year (5)	Two-Year Private (6)	Grad./ Prof. (7)
1977	29.1	31.1	19.3	16.2	17.7	20.5	13.5
1978	28.0	27.1	16.5	14.9	14.1	24.4	11.0
1979	25.4	23.2	16.5	14.7	13.2	22.9	8.1
1980	22.9	23.5	13.2	11.7	10.9	22.2	7.4
1981	22.3	20.2	9.4	9.7	7.4	21.1	4.9
1982	23.9	24.0	10.2	8.4	8.0	21.5	6.7
1983	18.0	17.8	8.1	6.2	5.3	16.4	7.0
1984	7.1	7.5	3.6	2.4	1.9	7.2	2.3
1985	1.1	*	*	*	*	1.1	*

Definition #2 - Number of Loans in Default / Number of Loans Issued

Year	Tech. Inst. (1)	Community Colleges (2)	State Univ. (3)	U. of Minn. (4)	Private 4-Year (5)	Two-Year Private (6)	Grad./ Prof. (7)
1977	28.3	30.9	18.5	15.7	15.4	22.3	13.1
1978	26.7	26.1	15.8	16.4	14.0	26.4	10.4
1979	25.3	22.8	15.4	14.3	13.0	24.5	7.4
1980	23.2	24.0	12.6	12.2	10.6	23.3	7.1
1981	23.3	21.5	10.3	10.5	7.8	22.7	5.1
1982	24.9	25.8	10.8	10.6	8.1	23.9	5.8
1983	21.1	20.1	8.9	8.3	6.1	18.0	5.8
1984	8.0	8.8	4.3	3.1	2.4	7.9	2.5
1985	1.2	*	*	*	*	1.3	*

Source: Computations by the authors from data provided by MHECB.

TABLE 8

10:39 THURSDAY, MARCH 31, 1988

NEW JERSEY PELL AND GSL PROGRAMS
ESTIMATED EFFECT OF CONGRESSIONAL METHODOLOGY
FALL 1987 COLLEGE UNDERGRADUATES

STATUS DEPENDENT

	AID ELIGIBLE FALL 1987 UM	AID ELIGIBLE WITH CM	ELIGIBILITY CHANGE WITH CM			AGGREGATE NEED MILLIONS			AVERAGE AID ELIGIBILITY			AVERAGE AID CHANGE		
			NO CHANGE	LESS AID	NO AID	NEED UM	NEED CM	NEED CHANGE	NEED UM	NEED CM	NEED CHANGE	NO CHANGE	LESS AID	NO AID
	N	N	PCT	PCT	PCT	MIL $	MIL $	MIL $	AVG $	AVG $	AVG $	AVG $	AVG $	AVG $
SECTOR														
INDEPENDENT	9602	9242	57	39	4	74.7	67.7	6.9	7784	7056	-727	-2	-1644	-2139
4 YR PUBLIC	19971	18176	55	36	9	81.8	68.1	13.7	4098	3410	-686	-2	-1435	-1926
COMMUNITY C.	5240	4599	56	32	12	16.3	12.5	3.8	3115	2389	-725	-1	-1461	-2100
OUT OF STATE	32363	31177	57	40	4	237.7	218.6	19.0	7345	6755	-589	-3	-1314	-1776
TOTAL	67176	63194	56	38	6	410.6	366.9	43.5	6113	5463	-648	-2	-1408	-1929
AGI														
UNDER$12,000	11105	10798	65	32	3	77.9	71.0	6.8	7016	6401	-613	-2	-1637	-3121
$12-$18,000	7887	7595	59	37	4	55.2	49.7	5.5	7011	6311	-698	-1	-1559	-3046
$18-$24,000	3496	8141	56	39	4	58.3	52.2	6.0	8868	8153	-711	-2	-1515	-2735
$24-$30,000	8027	7570	56	38	6	51.6	46.4	5.3	6462	5789	-672	-2	-1409	-2248
$30-$40,000	11655	10846	54	39	7	67.8	60.2	7.5	5818	5172	-644	-2	-1337	-1716
$40-$50,000	9181	8361	51	40	9	47.5	41.6	5.8	5178	4533	-643	-3	-1283	-1462
OVER $50,000	10825	9883	52	39	9	51.8	45.4	6.3	4791	4200	-590	-3	-1201	-1324
CLASS LEVEL														
1	23842	22657	64	31	5	141.8	129.5	12.2	5948	5433	-513	-2	-1317	-1964
2	18710	15789	58	37	5	100.4	90.7	9.7	6012	5428	-582	-2	-1313	-1819
3	13950	13019	50	43	7	87.3	77.0	10.2	6262	5523	-738	-3	-1409	-1849
4	12674	11719	47	45	8	80.9	69.8	11.2	6380	5498	-890	-2	-1621	-2068
TOTAL	67176	63194	56	38	6	410.6	366.9	43.5	6113	5463	-648	-2	-1408	-1929

TABLE 9

10:39 THURSDAY, MARCH 31, 1988

NEW JERSEY GUARANTEED STUDENT LOAN PROGRAM
ESTIMATED EFFECT OF CONGRESSIONAL METHODOLOGY
FALL 1987 UNDERGRADUATE COLLEGE LOANS

STATUS DEPENDENT

	GSL LOANS FALL 1987 UM	GSL ELIGIBLE WITH CM	GSL ELIGIBILITY CHANGE			AGGREGATE LOAN DOLLARS			AVERAGE LOAN ELIGIBILITY			GSL ELIGIBILITY CHANGE		
			NO CHANGE	REDUCE LOAN	NO LOAN	GSL AMOUNT UM	GSL AMOUNT CM	LOAN DOLLAR CHANGE	GSL AMOUNT UM	GSL AMOUNT CM	LOAN DOLLAR CHANGE	NO CHANGE	REDUCE LOAN	NO LOAN
	N	N	PCT	PCT	PCT	MIL $	MIL $	MIL $	AVG $	AVG $	AVG $	AVG $	AVG $	AVG $
SECTOR														
INDEPENDENT	4588	3979	56	31	13	10.7	8.2	2.5	2335	1789	-546	0	-937	-1983
4 YR PUBLIC	5588	4321	36	41	23	8.7	5.6	3.0	1572	1019	-553	0	-665	-1236
COMMUNITY C.	551	409	44	30	26	0.7	0.4	0.2	1370	877	-495	0	-557	-1262
OUT OF STATE	18666	17265	69	23	8	47.3	40.2	7.1	2536	2155	-381	0	-950	-2139
TOTAL	29391	25974	61	28	12	67.5	54.6	12.9	2299	1858	-442	0	-860	-1737
AGI														
UNDER$12,000	3175	2868	65	26	10	7.0	5.9	1.1	2214	1867	-348	0	-808	-1464
$12-$18,000	2546	2293	64	26	10	5.7	4.8	0.9	2265	1890	-377	0	-835	-1625
$18-$24,000	3297	3004	64	27	9	7.6	6.4	1.1	2310	1951	-359	0	-784	-1629
$24-$30,000	3542	3144	63	26	11	8.0	6.7	1.3	2281	1912	-369	0	-708	-1675
$30-$40,000	5657	5002	61	28	12	12.8	10.4	2.4	2279	1849	-429	0	-849	-1667
$40-$50,000	4987	4328	57	30	13	11.4	8.9	2.5	2299	1789	-510	0	-904	-1786
OVER $50,000	6187	5337	57	30	14	14.7	11.2	3.4	2382	1824	-559	0	-978	-1949
CLASS LEVEL														
1	9224	8340	66	25	10	20.2	16.9	3.3	2192	1833	-359	0	-780	-1722
2	7210	6415	62	27	11	15.4	12.6	2.8	2149	1754	-396	0	-795	-1661
3	6683	5838	57	31	13	16.3	13.0	3.2	2444	1952	-493	0	-882	-1751
4	6274	5381	55	30	14	15.5	12.0	3.5	2476	1915	-561	0	-999	-1804
TOTAL	29391	25974	61	28	12	67.5	54.6	12.9	2299	1858	-442	0	-860	-1737

TABLE 10

ESTIMATED DEPENDENT TAG AWARDS FALL 1987 16:09 TUESDAY, SEPTEMBER 15, 1987
STUDENT CONTRIBUTION USING CONGRESSIONAL METHODOLOGY
OSA RESEARCH: LKB/CCL

TOTAL NEW JERSEY	CURRENT STUDENT CONTRIB.	TOTAL TAG AWARDS	STUDENT CONTRIBUTION INCREASE WITH CM							STUDENT CONTRIBUTION INCREASE WITH CM							TOTAL SC INCREASE > 0	SC INCR > 0
			0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +	0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +		
	MEAN $	N	N	N	N	N	N	N	N	%	%	%	%	%	%	%	MEAN $	%
NJEI/EFC																		
UNDER 950	847	10276	6763	415	480	414	330	240	569	73	5	5	4	4	3	6	2660	0.27
950-1349	899	2029	1203	144	152	106	116	74	165	61	7	8	5	6	4	8	2600	0.39
1350-1749	912	2144	1237	127	135	170	115	88	200	60	6	7	8	6	4	10	2826	0.40
1750-2149	927	1972	1094	147	159	119	135	86	171	57	8	8	6	7	5	9	2662	0.43
2150-2549	953	1803	981	135	167	121	100	77	166	56	8	10	7	6	4	10	2708	0.44
2550-2949	981	1584	858	115	125	113	107	61	165	56	7	8	7	7	4	11	2759	0.44
2950-3349	989	1410	742	108	133	105	86	57	144	54	8	10	8	6	4	10	2716	0.46
3350-3749	1016	1294	695	104	94	118	95	57	103	55	8	7	9	8	5	8	2629	0.45
3750-4149	1078	1037	553	92	110	82	59	47	94	53	9	11	8	6	5	9	2648	0.47
4150-4549	1066	982	525	84	96	89	59	31	98	53	9	10	9	6	3	10	2759	0.47
4550-4949	1088	890	509	65	81	65	47	41	82	57	7	9	7	5	5	9	2768	0.43
4950-5349	1156	794	436	53	78	77	54	31	65	55	7	10	10	7	4	8	2865	0.45
5350-5749	1132	738	392	69	69	52	59	29	68	53	9	9	7	8	4	9	2662	0.47
5750-6149	1105	460	257	30	49	34	33	19	38	56	7	11	7	7	4	8	2731	0.44
6150 +	1165	1713	991	145	136	132	107	61	141	58	8	8	8	6	4	8	2684	0.42
TOTAL	955	29126	17236	1833	2064	1797	1502	999	2269	62	7	7	6	5	4	8	2698	0.38
CLASS LEVEL																		
1	828	9889	6547	573	603	508	401	179	376	71	6	7	6	4	2	4	2316	0.29
2	1011	7583	4598	484	519	459	362	245	475	64	7	7	6	5	3	7	2669	0.36
3	1022	6018	3297	423	475	399	345	258	640	56	7	8	7	6	4	11	2830	0.44
4	1020	5636	2794	353	467	431	394	317	778	50	6	8	8	7	6	14	2972	0.50
TOTAL	955	29126	17236	1833	2064	1797	1502	999	2269	62	7	7	6	5	4	8	2698	0.38

TABLE 11

ESTIMATED DEPENDENT TAG AWARDS FALL 1988 14:51 MONDAY, MAY 23, 1988 6
STUDENT CONTRIBUTION USING CONGRESSIONAL METHODOLOGY
OSA RESEARCH: LKB/CCL

TOTAL NEW JERSEY	CURRENT STUDENT CONTRIB	TOTAL TAG AWARDS	STUDENT CONTRIBUTION INCREASE WITH CM							STUDENT CONTRIBUTION INCREASE WITH CM							TOTAL SC INCREASE > 0	SC INCR > 0
			0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +	0	$100-500	500-999	1000-1499	1500-1999	2000-2499	2500 +		
	MEAN $	N	N	N	N	N	N	N	N	%	%	%	%	%	%	%	MEAN $	%
NJEI/EFC																		
UNDER 1500	873	7105	3622	743	539	563	488	304	846	51	10	8	8	7	4	12	2774	0.49
1500-2499	939	2808	1112	384	292	375	222	147	396	38	13	10	13	8	5	14	2985	0.32
2500-3499	1009	2190	773	298	196	268	176	140	339	35	14	9	12	8	6	15	3008	0.65
3500-4499	1097	1885	621	246	187	239	165	121	286	33	13	10	13	9	6	15	3091	0.67
4500-5499	1140	1430	485	193	184	193	122	88	175	33	13	13	13	9	7	12	2870	0.67
5500-6499	1155	1194	399	181	127	173	89	70	155	33	15	11	14	7	6	13	2915	0.67
6500-7499	1299	647	220	107	69	89	58	36	88	34	17	11	11	9	6	14	3251	0.66
7500-8499	1233	556	182	71	54	82	55	48	64	33	13	10	15	10	9	12	3222	0.67
8500-9499	1167	208	67	28	33	25	14	13	28	32	13	16	12	7	6	13	3114	0.68
TOTAL	993	18103	7481	2231	1681	1987	1389	977	2377	41	12	9	11	8	5	13	2933	0.59
CLASS LEVEL																		
1	887	6859	3289	889	602	718	471	295	595	48	13	9	10	7	4	9	2719	0.52
2	1050	4302	1902	561	389	439	328	201	482	44	13	9	10	8	5	11	2778	0.58
3	1055	3804	1253	430	365	409	288	255	804	35	12	10	11	8	7	17	3027	0.65
4	1068	3338	1017	351	325	421	302	226	696	30	11	10	13	9	7	21	3325	0.70
TOTAL	993	18103	7481	2231	1681	1987	1389	977	2377	41	12	9	11	8	5	13	2933	0.59

The Impact of Congressional Methodology on the Minnesota State Scholarship and Grant Program

Gerald L. Setter

Minnesota Higher Education Coordinating Board*

In the 1986 amendments to the Higher Education Act, the U.S. Congress specified formulas for determining the expected parental and student contributions. These formulas have become known as the Congressional Methodology. Congressional Methodology must be used for all Title IV programs except the Pell Grant Program and the State Student Incentive Grant Program. Congressional Methodology has replaced Uniform Methodology, the need analysis used in the Minnesota State Scholarship and Grant Program, as the "standard" need analysis used for financial aid.

Need analyses are taxing systems. Two systems that purport to reflect the same philosophy often produce different results. Small differences in allowances, exemptions, offsets and assessment rates combine to have significant impacts. A change designed to help one group disadvantages everyone else. Any system that has been adjusted to help multiple groups should be evaluated to determine its overall impact.

The remainder of this report analyzes the impact of changing from the Uniform Methodology to the Congressional Methodology on the Minnesota State Scholarship and Grant Program. Two facets are examined. First, the expected parental contribution for dependent students are analyzed. Second, the impact on total spending for the program is analyzed.

** All comments, conclusions and opinions are those of the author and are not necessarily shared by the MHECB. The author is grateful to the MHECB for its assistance in conducting this report.*

The Concept of the Design for Shared Responsibility

The Minnesota State Scholarship and Grant Program is based on a concept called the Design for Shared Responsibility. Because students are the primary beneficiaries of a postsecondary education, the Design for Shared Responsibility assigns them the primary responsibility for financing the cost of attendance. This assignment is called the student share and is set at 50 percent of the cost of attendance. The remaining 50 percent of the cost of attendance, called the parent-government share, is met by an expected parental contribution and by a combination of federal Pell grants and state scholarships and grants

The cost of attendance is the sum of tuition, fees and a living and miscellaneous expense allowance. The living and miscellaneous expense allowance for Fiscal Year 1988 is set at $2,985. For students attending public institutions, the actual tuition and fees are used in determining the award. For students attending private institutions, allowed tuition and fees are capped at a level that represents the cost of instruction in public institutions. In Fiscal Year 1988, the cap for students attending private four-year institutions if $5,875. The cap for students attending private two-year institutions is $4,568.

The expected parental contributions used in the Minnesota State Scholarship and Grant Program is determined using Uniform Methodology. Applicants meeting the criteria of an independent student are evaluated to determine if they can be expected to cover part or all of the parent-government share. A Minnesota Student Contribution is calculated for those eligible to apply as independent students. The Minnesota Student Contribution uses the Uniform Methodology expected student contribution as its base. Because the cost of attendance does not include an allowance for family members, the expected student contribution is adjusted. The deduction is based on the number of dependents the student has. In the Fiscal Year 1988, the following deductions were made to obtain the Minnesota Student Contribution:

• No Dependents:	$0
• One dependent:	$6,108
• Two dependents:	$8,103
• Three dependents:	$10,465
• Four dependents:	$12,708
• Five dependents:	$15,198
• Each additional dependent:	$1,568

The state scholarship or grant award is based on the parent-government share. First, the expected parental contribution for dependent students or the Minnesota Student Contribution for independent students is subtracted from the parent-government share. Second, the Pell grant is subtracted. Third, a state scholarship or grant is awarded to cover the rest of the parent-government share. With these parameters, the maximum state scholarship or grant award works out to be $4,430.

Source of Data

The analysis of the changes in the expected parental and student contributions are based on simulations produced by ACT. ACT used a 10 percent sample of Fiscal Year 1988 Minnesota State Scholarship and Grant Program applicants.

Differences in Expected Parental Contributions for Dependent Students

For students applying as dependent students, expected parental contributions are similar using the two methodologies. On average, the projection using the Congressional Methodology is $2,986, while the projection using the Uniform Methodology is $2,713. Expected parental contributions were higher using Congressional Methodology for those with incomes greater than $12,000 and lower for those with incomes less than $12,000. Table 1 shows these results.

Differences in Expected Student Contributions for Independent Students

The two methodologies produced quite different projections of expected student contributions for those applying as independent students. In order to identify the impacts, the population of those eligible to apply as independent students is divided into four sub-groups.

Unmarried With No Dependents

For unmarried students with no dependents applying as independent students, the average projected expected student contribution using the Congressional Methodology is $4,395. This compares to an average Minnesota Student Contribution of $1,953. Using Congressional Methodology, the average student in this sub-group would no longer qualify for a state scholarship or grant if attending any public institution or most private institutions. Using the Minnesota Student Contribution, the average student in this sub-group would qualify for a state scholarship or grant at almost all institutions. The projection of expected student contributions using the Congressional Methodology is higher than the Minnesota Student Contribution across the income spectrum. Table 2 shows these results.

Unmarried With Dependents

For unmarried students with dependents applying as independent students, the average expected student contribution projected using Congressional Methodology is $608, compared to a zero Minnesota Student Contribution. This is based on an average family of two, less than the 2.8 observed in the sample. Adopting the Congressional Methodology would decrease the award to the average student by $608. Congressional Methodology produces a larger expected student contribution across the income spectrum. Table 3 shows these results.

Married With No Other Dependents

For married students with no other dependents applying as independent students, the average projected expected student contribution using Congressional Methodology is $1,190. The Minnesota Student Contribution for the average student is $415. Table 4 shows these results. Congressional Methodology expects more from students with incomes less than $18,000 and less from those with incomes above $18,000.

Married With Dependents

For married students with dependents applying as independent students, the average projected expected student contribution using

Congressional Methodology is $1,006, compared to a zero Minnesota student Contribution. This is based on an average family size of four, slightly less than the family size of 4.3 observed for this sample. The projected student contribution is higher using the Congressional Methodology across the income spectrum. Table 5 shows these results.

Impact Minnesota State Scholarship and Grant Program Spending

Projected spending for the Minnesota State Scholarship and Grant Program in Fiscal Year 1988 is $65.9 million. At the time of the spring update, 60,000 students had received a state scholarship or grant for the year. Table 6 shows these results.

Methodology

A sample of Fiscal Year 1988 cleared applicants to the State Scholarship and Grant Program was drawn. Cleared applicants are those who completed the application process and were determined to be eligible. Both recipients and non-recipients are included in the sample.

To estimate a Congressional Methodology expected parental contribution for dependent students, the expected parental contribution computed by the Uniform Methodology for Fiscal Year 1988 was multiplied by the percentages shown in Table 1. For independent students, the process was similar. For the income levels within each of the four subgroups identified above, the Uniform Methodology value was multiplied by the ratio of simulated Congressional Methodology and Uniform Methodology values.

Because the Pell award is considered in making a state scholarship or grant award, the impact of the Fiscal Year 1989 Pell program changes were considered first. ACT provided simulations of the expected changes in the Pell Student Aid Index by income group for each of the five categories. The Fiscal Year 1989 Student Aid Index for each student in the sample was adjusted by multiplying the Fiscal Year 1988 value by the ratio of the Fiscal Year 1989 to Fiscal Year 1988 values simulated by ACT.

Results

If the Fiscal Year 1989 changes in the Pell need analysis had been in place, the State Scholarship and Grant Program would have spent $59.7 million in Fiscal Year 1988. This is a reduction in state spending of $6.2 million. About 59,000 students would have received an award, 1.6 percent fewer than the actual number.

If both the Congressional Methodology and Fiscal Year 1989 Pell need analysis changes had been in place, Fiscal Year 1988 spending would have been $49.7 million. This is a $10.0 million decrease beyond what would have been spent if only the new Pell rules had been taken into account. About 49,000 students would have received awards, 10,000 fewer as a result of Congressional Methodology.

The impact on students is not evenly distributed. Independent students would have a larger decrease in the relative number of awards than dependent students. For 1988, 41 percent of the recipients applied as independent students. With the changes in the Pell program, the share of recipients who applied as independent students remains at 41 percent. Using Congressional Methodology, the share of recipients who applied as independent students is reduced to 31 percent.

The impact on the distribution of state dollars is more dramatic. Recipients who applied as independent students received 34 percent of the dollars. The Pell changes result in the share dropping to 30 percent. These students would account for only 23 percent of the awards if Congressional Methodology were used.

The impact of Congressional Methodology is not evenly distributed across all independent students. Recipients who applied as independent students and attended a public two-year institution would share disproportionately in the reductions. These students made up 22 percent of the recipients in 1988 (see Table 7). They account for 70 percent of the decrease in the number of recipients attributable to Congressional Methodology.

Recipients who applied as independent students and attended a public two-year institution received 13 percent of the awards. They account for 36 percent of the reductions in awards attributable to Congressional Methodology.

Summary

Congressional Methodology reduces Minnesota State Scholarship and Grant Program spending by $10.0 million. Those applying as independent students would experience a larger relative decrease in total awards than would dependent students. Married students with no other dependents and incomes over $18,000 would have larger awards with Congressional Methodology. Except for a few exemptions, all other groups of students would have lower awards using Congressional Methodology.

Table 1. Comparison of Expected Parent Contribution Using CM and Minnesota Student Contribution Using UM for Dependent Students by Total Parents' Income

Total Parents' Income	Uniform Methodology FY 1988	Congressional Methodology FY 1989	CM As a Percent of UM
$0 to $5,999	$ 41	$ 30	73%
$6,000 to $11,999	196	151	77%
$12,000 to $17,999	277	291	105%
$18,000 to $23,999	834	949	114%
$24,000 to $29,999	1,338	1,558	116%
$30,000 to $35,999	2,198	2,533	115%
$36,000 to $41,999	3,605	4,143	115%
$42,000 to $47,999	4,756	5,345	112%
$48,000 to $53,999	6,188	6,754	109%
$54,000 to $59,999	7,132	7,726	108%
Over $59,999	11,177	11,648	104%
Average	2,713	2,986	110%

Note: Total Parents' Income has been inflated for Fiscal Year 1989 before the expected parental contribution was projected.

Source: Minnesota Higher Education Coordinating Board Based on Data Supplied by ACT.

Table 2. Comparison of Expected Student Contribution Using CM and Minnesota Student Contribution (MNSC) for Independent Students Who Were Unmarried Without Other Dependents By Base Year Student Income

Base Year Income	MNSC FY 1988	CM FY 1989	CM as a Percent of MNSC
$0 to $2,999	$ 894	$ 1,349	151%
$3,000 to $5,999	1,693	1,951	117
$6,000 to $8,999	1,796	3,304	184
$9,000 to $11,999	2,466	4,787	194
$12,000 to $14,999	3,001	6,487	216
$15,000 to $17,999	3,349	8,141	237
$18,000 to $20,999	4,848	11,156	230
$21,000 to $23,999	5,136	11,662	227
$24,000 to $26,999	7,191	13,971	194
$27,000 to $29,999	12,538	20,532	164
Over $29,999	3,499	99,388	2,840
Average	1,953	4,395	255

Source: Minnesota Higher Education Coordinating Board Based on Data Supplied by ACT.

Table 3. Comparison of Expected Student Contribution Using CM and Minnesota Student Contribution (MNSC) for Independent Students Who Were Unmarried With Other Dependents By Base Year Student Income

Base Year Income	MNSC FY 1988	CM FY 1989	CM as a Percent of MNSC
$0 to $2,999	$ 0	$ 172	—
$3,000 to $5,999	0	175	—
$6,000 to $8,999	0	256	—
$9,000 to $11,999	0	203	—
$12,000 to $14,999	0	273	—
$15,000 to $17,999	0	298	—
$18,000 to $20,999	0	546	—
$21,000 to $23,999	1,618	821	51
$24,000 to $26,999	0	2,501	—
$27,000 to $29,999	37	1,844	4,984
Over $29,999	82	28,573	34,845
Average	0	608	

Note: The value for the Uniform Methodology was based on the calculated expected student contribution less $6,108 as described in the text.

Source: Minnesota Higher Education Coordinating Board Based on Data Supplied by ACT.

Table 4. Comparison of Expected Student Contribution Using CM and Minnesota Student Contribution (MNSC) for Independent Students Who Were Married Without Other Dependents By Base Year Student Income

Base Year Income	MNSC FY 1988	CM FY 1989	CM as a Percent
$0 to $2,999	$ 0	$ 176	—
$3,000 to $5,999	0	139	—
$6,000 to $8,999	0	163	—
$9,000 to $11,999	0	224	—
$12,000 to $14,999	0	350	—
$15,000 to $17,999	0	629	—
$18,000 to $20,999	1,366	894	65
$21,000 to $23,999	2,503	1,695	68
$24,000 to $26,999	3,204	1,579	49
$27,000 to $29,999	3,820	2,664	70
Over $29,999	5,420	1,178	77

Note: The value for the Uniform Methodology was based on the calculated expected student contribution less $6,108 as described in the text.

Source: Minnesota Higher Education Coordinating Board Based on Data Supplied by ACT.

Table 5. Comparison of Expected Student Contribution Using CM and Minnesota Studen tContribution (MNSC) for Independent Students Who Were Married and Had Other Dependents By Base Year Student Income.

Base Year Income	MNSC FY 1988	CM FY 1989	CM as a Percent of MNSC
$0 to $2,999	$ 0	$ 155	—
$3,000 to $5,999	0	167	—
$6,000 to $8,999	0	199	—
$9,000 to $11,999	0	403	—
$12,000 to $14,999	0	455	—
$15,000 to $17,999	0	505	—
$18,000 to $20,999	0	654	—
$21,000 to $23,999	0	786	—
$24,000 to $26,999	0	1,357	—
$27,000 to $29,999	0	1,381	—
Over $29,999	1,506	3,250	216
Average	0	1,006	

Note: The value for the Uniform Methodology was based on the calculated expected student contribution less $10,465 as described in the text.

Source: Minnesota Higher Education Board Based on Data Supplied by ACT.

Table 6. Projected Impact of Changes in Pell Program and CM as the Need Analysis on the Minnesota State Scholarship and Grant Program for Fiscal Year 1988.

	Recipients		Awards	
Projection Scenario	Number	%	$(000,000)	%
Projected 1988				
Dependent Students	35,403	59%	$43.2	66%
Independent Students	24,686	41%	$22.7	34%
Total	60,090	100%	$65.9	100%
Projected 1988 with 1989 Pell Program Parameters				
Dependent Students	35,113	59%	$41.7	70%
Independent Students	24,118	41%	$17.9	30%
Total	59,120	100%	$59.7	100%
Projected 1988 with 1989 Pell Program Parameters and Congressional Methodology				
Dependent Students	33,573	69%	$38.4	77%
Independent Students	15,175	31%	$11.4	23%
Total	48,749	100%	$49.7	100%

Source: Minnesota Higher Education Coordinating Board based on data supplied by ACT.

Table 7. Independent Students at Technical Institutes And Community Colleges Share of the Minnesota State Scholarship and Grant Program Spending and Share of Decreases Resulting From Implementing the Pell Program and CM as the Need Analysis for Fiscal Year 1988.

Case	Number	Awards
Share of Projected 1988 Awards	22%	13%
Share of Decreases Due to Using 1989 Pell Program Parameters	23%	28%
Share of Decreases Due to Using 1989 Pell Program Parameters and Congressional Methodology	70%	36%

Source: Minnesota Higher Education Coordinating Board based on data supplied by Act.

The Impact of Congressional Methodology on University of Minnesota Twin Cities Campus Financial Aid Applicants

Reed Carpenter
University of Minnesota

Introduction

Congress, in 1986, significantly changed the methodology used by postsecondary education institutions to determine eligibility for student financial aid. This paper examines the consequences that CM holds for five student categories that compose the financial aid applicant population at the University of Minnesota's Twin Cities campus. Three questions will be considered. Have students' eligibility for aid, relative to each other, changed? Has aggregate and average student need changed? And, has the number of students eligible for aid changed? To examine these questions, it is useful to review how eligibility for financial aid is established and how financial aid is awarded at the University of Minnesota.

Establishing Student Eligibility and Need

Federal law establishes the manner in which eligibility for aid is determined. To be considered eligible for aid students must meet a number of standards including: citizenship, satisfactory academic progress and level of attendance. Need is established by subtracting a contribution from income and assets available to the student from a student expense budget. The difference resulting from this calculation represents the amount of aid a student may receive from all sources.

Awarding Financial Aid at the University of Minnesota

Once it has been determined that a student is eligible for aid and has need, awards may be made. At the University of Minnesota awarding takes place in three steps. First, external sources of aid are awarded. This includes federal Pell grants, state grants and scholarships. Next, campus-based funds, including federal and state appropriations to the campus and institutional funds, are awarded. If need remains, it may be met by entitlement loan programs such as the Stafford Student

Loan Program (GSL), or employment. The change to CM has implications for each step in this awarding process.

Because the implications of changes to external sources of aid (Pell and state grants) is addressed in other papers, this paper concentrates on the impacts of CM on the awarding of campus-based funds, entitlement loans and employment. However, it should be noted that the formula's used to establish need for Pell and state grants are different than CM, which is used to establish need for campus-based appropriations, and campus-based entitlements.

Campus-based Entitlements

Although eligibility for campus-based appropriations and campus-based entitlements are determined by use of Congressional Methodology, they often differ significantly in terms of who controls awarding of such funds and the supply and demand for each type of aid.

Campus-based appropriations are loosely defined as those funds for which an institution may establish awarding criteria, as compared to external sources of aid where federal or state agencies determine both eligibility and the amount of the award, and campus-based entitlement aid, where eligibility is determined by federal or state policy and the amount of the award is, within limits, the student's decision. Campus-based appropriation funds include government sponsored programs such as Perkins Loan (NDSL), Supplemental Educational Opportunity Grant (SEOG) and College Work Study (CWS) as well as institutional funds.

When considering the impacts of CM on the awarding of campus-based appropriations you must ordinarily work with an assumption of greater demand than supply. Often, schools award such funds to students until the funds run out. From that point on, students must meet any remaining need by way of campus-based entitlements. Because funds run out before students' need is filled, a significant question to consider is whether a difference exists in the relative order in which students are awarded funds under Uniform Methodology (UM) and CM? Put another way, how many students who received an award under UM will not receive one under CM? In the case of our recent change to CM, a subsidiary question also arises. Have the changes in student budgeting (i.e., the lack of recognition of dependent costs) affected the relative ordering of students with dependents and those without dependents.

Campus-based Entitlements: As compared to campus-based appropriations, availability of funds is not as significant an issue when considering campus-based entitlements. In most instances supply equals demand. As is the case with campus-based appropriations, a student must first establish need. Having established eligibility and need, fewer governmental or institutional awarding limits exist. Although the supply of work opportunities varies from labor market to labor market, it is reasonable to assume that few limitations exist on access to campus-based entitlement funds other than those imposed by the methodology or a student's expense budget. A significant question to consider in this instance is, do students have the same aggregate or individual need under CM as UM? Clearly there have been changes.

Two changes from the Higher Education Act of 1986 bear on this question. First, Congress has limited the dependent costs that financial aid administrators may include in a student's expense budget. Second, the expected family contribution calculations have changed for each type of student considered here.

Method

To evaluate the effects of these changes on campus-based appropriations and campus-based entitlement aid, a worst case example was used. This was accomplished by applying the lowest student expense budget used at the University of Minnesota Twin Cities campus for the 87-88 academic year to all students included in the sample. Expense budgets for students with dependents or spouses were reduced under CM to reflect new federal policy. In addition, no adjustments were made to budgets under CM to account for increases between academic years in either direct educational costs or maintenance costs. The University of Minnesota uses a variety of budgets based on tuition rates, which vary extensively from college to college and by year in school. The nature of the sample did not allow distinctions to be made by college of enrollment.

Sample

The cases used in this analysis consisted of a random sample of 2297 applicants for financial aid at the University of Minnesota Twin Cities campus during the 1987-88 academic year. The sample was provided

by ACT as part of their simulation service. Because the sample includes only applicants from ACT's database, it should be noted that not all applicants enroll in school or complete the financial aid application process if they do enroll. The University of Minnesota has noted significant differences in the population of students who apply for aid and those who complete the application process. As noted above, the sampling procedure did not allow distinctions by college of enrollment or year in school.

Results

Campus-Based Appropriations

Two questions were posed about the impact of CM on campus-based aid. Had relative eligibility among students changed and do students with dependents fare worse or better now that federal student expense budgeting standard no longer recognize dependent maintenance costs.

For each classification of student under UM and CM, Table I shows average need of students with need, each classifications relative rank and the number of students showing no need.

Tables I & II categorize students into dependents and four classifications of independent students. The last three classifications of independent students (Married with no Dependent, Married with Dependents and Single with Dependents) are those students who are affected by the decision to no longer recognize dependent maintenance costs.

Campus-Based Entitlements

Table II illustrates the impacts of CM on aggregate student need on dependent students and four categories of independent students.

The results for all questions are summarized below by category of student:

Dependent Students: These students constituted 51.2 percent of the sample. They are almost exclusively undergraduate students. Whereas, aggregate eligibility for aid among members of this group in the sample dropped by 28 percent the average need of students with need dropped from $4,394 under UM to $3,691 (16 percent) under CM. Dependent student's relative need rank under UM and CM is the same. A difference exists in the percent drop in aggregate and average need because the number of students showing no

need jumped from 9 percent of the category under UM to 21 percent under CM.

Single Independent Students With No Dependents: This group constituted 33.2 percent of the sample and was dominated by third and fourth year undergraduates and graduate students. The classification experienced a decline in aggregate eligibility of 22 percent while the average need of students with need fell from $5,942 under UM to $5,178 (13 percent) under CM. The relative need rank of these students fell from 3 under UM to 4 under CM. Again, a difference exists in the percent drop in aggregate and average need because 10 percent of all students in this category lost all eligibility for aid.

Married Independents With No Dependents: This category constituted 5.8 percent of the sample. Again, most of these students are undergraduate juniors and seniors or graduate students. In the aggregate, this group experienced a 63 percent gain in eligibility. Average eligibility increased from $4,699 under UM to $6,659 under CM. Under UM, 16 percent of the students in this category did not show need. Under CM, all students in the category exhibited need. The relative need rank of students in this category rose from 4 under UM to 2 under CM.

Married Independents With Dependents: This category constituted 4.9 percent of the sample. The average family size of married independent students with dependents in the sample was 3.8. Again, most of these students are undergraduate juniors and seniors or graduate students. In the aggregate, this group experienced a 4 percent gain in eligibility. Average eligibility increased from $6,200 under UM to $6,443 under CM. All students in the category exhibited need under both UM and CM. The relative need rank of students in this category fell from 2 under UM to 3 under CM.

Single Independents With Dependents: This category constituted 4.8 percent of the sample. The average family size of single independent students with dependents in the sample was 2.9. Again, most of these students are undergraduate juniors and seniors or graduate students. In the aggregate, this group experienced a 19 percent loss of eligibility. Average eligibility decreased from $9,357 under UM to $7,583 under CM. All students in the category exhibited need under both UM and CM. The relative need rank of students in this category remained the

same. Under both UM and CM these students generally rank as most needy.

In general, the results show a number of changes. Single students with no dependents and married students with two dependents drop in the relative order of awarding. Married students with no dependents rise. Students with dependents or a spouse maintain their position, relative to students with no dependents, in the awarding priority. However, married students with no children now enjoy a higher priority than do married students with dependents. Applicants who show no need increase from 5.5 under UM to 14.7 percent of the sample under CM.

In aggregate, student need across all categories decreased by 19 percent as a result of moving to CM. The average need of students showing need dropped from $5,010 to $4,075 or 19 percent.

Conclusions

In the competition for campus-based appropriations, married students with no children are the big winners, while single students with no dependents and married students with dependents lose relatively. Students with dependents or a spouse maintain their priority relative to students with no dependents.

In aggregate, students will exhibit less need. We expect that this will translate to less eligibility for Stafford Student Loans (GSL) and that it may result in increased reliance by students on family resources, employment programs or loans programs with less favorable interest rates (e.g., SLS & PLUS) to finance their education. Student borrowing and employment will be areas worth watching over the next few years to see if new patterns result.

Table 1

Average Financial Need and Relative Rank
Uniform Methodology and Congressional Methodology

		Uniform Methodology			Congressional Methodology		
	N of Cases	Average Need	Need Rank	Number Ineligible	Average Need	Need Rank	Number Ineligible
Dependent	1177	$4,394	5	106	$3,691	5	257
Single No Dep	762	$5,942	3	0	$5,178	4	80
Married No Dep	133	$4,699	4	21	$6,659	2	0
Married With Dep	113	$6,200	2	0	$6,443	3	0
Single With Dep	112	$9.357	1	0	$7,583	1	0
Totals	2297	$5,010		127 (5.5%)	$4,075		337 (14.7%)

Table 2

Aggregate Financial Need
Uniform Methodology and Congressional Methodology

	Aggregate Need Under UM	Aggregate Need Under CM	Percent Change
Dependent	$ 4,706,129	$3,395,818	-28%
Single No Dep	$ 4,527,683	$3,531,313	-22%
Married No Dep	$ 526,323	$ 855,582	+63%
Married With Dep	$ 700,564	$ 728,028	+ 4%
Single With Dep	$ 1,047,988	$ 849,288	-19%
Totals	$11,508,687	$9,360,029	-19%

Source: ACT Simulation of the 87-88 University of Minnesota Twin Cities campus population

Section V

State-Level Options in Financial Aid Research

State-Level Options in Financial Aid Research

Abstracts

State-Level Options in Financial Aid Research

Porfirio Diaz, John Klacik, and Marilyn Sango-Jordon

The purpose of this report is to inform executives and managers of state student financial aid processing agencies about options in state-level student financial aid research. These options have already been exercised by the various states represented in the preparation of the report: New Mexico, New York, and Washington. The project was designed to focus attention on the resource requirements and benefits of each option so that rough comparisons may be made.

State-Level Options in Financial Aid Research

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Introduction

The purpose of this report is to inform executives and managers of state student financial aid processing agencies about options in state-level student financial aid research. These options have already been exercised by the various states represented in the preparation of the report: New Mexico, New York, and Washington. The project was designed to focus attention on the resource requirements and benefits of each option so that rough comparisons may be made.

Research options chosen by New Mexico and Washington consist of unit record data collection and matching of the unit record with other available information. The two New York research options discussed are surveys which occurred five years apart. The unit record systems deal with need-based aid recipients, while the surveys address all college students whether aided or not. These characteristics of the target populations were based on the information needs of the agencies involved rather than on inherent restrictions of either method.

In the cases of the states collecting unit record reports, legislative mandates empowered the agencies to obtain the data from postsecondary schools. Both survey approaches in New York were undertaken at the initiative of one or more agencies and without legislative action; institutional participation was voluntary. Again, these are not inherent restrictions of the respective methods.

Project Specifications

The databases vary widely in size and level of detail. The Washington State Unit Record Report (URR) routinely collected by the Higher Education Coordinating Board consists of 37 bits of information on about 60,000 students. Schools participating in Washington State financial aid programs report on all need-based aid — federal, state or private — distributed to students each year. The URR data are combined with demographic information from College Scholarship Service tapes for the state to form to a local database called the Master Analysis File or MAF.

In New Mexico, an elaborate database was constructed using four data sources for the 1986-86 academic year. The study was restricted to students attending at least half-time and having needs analyses performed by the federal Pell Grant Division of the U. S. Department of Education, the College Scholarship Service (CSS), or American College Testing (ACT). The sources were the Pell Grant Applicant Tape or CSS/ACT needs analysis tapes; the Commission on Higher Education (CHE) Student File; the CHE Degree File; and the CHE System Tracking of Aid Recipients (STAR) Report. The subjects were resident undergraduate and graduate students who attended public or private nonprofit institutions of higher education in New Mexico. More than 11,000 student records were reviewed.

The 1981-82 New York Higher Education Services Corporation (NYSHESC) Student Survey involved a sample of almost 10,000 students or approximately 1 percent of fall 1981 enrollment at participating institutions. More than half were identified as recipients of some kind of financial aid. Enrollment characteristics such as full-time or part-time status and undergraduate or graduate level were obtained from institutional Registrars. Detailed information on educational costs and resources was obtained on survey instruments sent to students and their Financial Aid Administrators. Replies from one or both sources were received for about 75 percent of the records.

In 1986-87 the U. S. Department of Education Center for Educational Statistics (CES) conducted the National Postsecondary Student Aid Study (NPSAS). Nationally, the survey involved 59,886 students from 1,074 participating institutions. States were given the option of paying for "augmented" samples which would provide state-level representative data. New York was the only state to exercise this option. The effort involved cooperation among the State Education Department

(SED), the New York State Higher Education Services Corporation (NYSHESC), the State University of New York (SUNY), and The City University of New York (CUNY). The New York sample ultimately consisted of about 8,000 students or perhaps 1,000 more than would have appeared had the sample not been augmented.

Types of Results

Unit record reports are characteristically used for routine reporting about student aid activity in the state. In both Washington and New Mexico, major research reports on unmet need among recipients of need-based aid were also produced.

Washington institutions are the most frequent users of the state's URR. Each school receives three standard printouts providing a series of comparison among (a) groups of schools; (b) socioeconomic factors; and (c) types of aid.

In New Mexico, the results of the unmet need study have been used to justify tying increases in state need-based aid to certain kinds of cost (tuition) increases. Between 1984-85 and 1987-88, a 670 percent rise in program funding was obtained for the New Mexico Student Incentive Grant (NMSIG), which provides grants to undergraduates attending public and private institutions when substantial financial need is demonstrated. The action was taken partially in recognition of the need to compensate for reduced federal aid levels.

Survey options are typically utilized by states when detailed cross-sectional data for a given time period are needed. The 1981-82 NYSHESC Student Survey generated information about student educational financing by both recipients and nonrecipients. A major research report dealt with unmet need among undergraduate recipients from different ethnic groups.

The 1986-87 NPSAS New York sample likewise allows detailed assessment of student educational financing patterns in the state with the additional advantage of national data as background. To the extent that similar items were used on the two surveys, some comments may be made on changes observed in student financing patterns during the intervening five-year period.

Required Resources for Data Collection

After adequate lead time for planning and start-up, a Unit Record System such as that found in Washington may be maintained by a half-time staff person over a six-month period annually. Computer services are obtained from a centralized facility available to all Washington state agencies.

The New Mexico model was developed and is supervised by a full-time professional who also performs numerous other duties. The level of effort to initiate such a system is estimated at .7 of one FTE employee for two years. Routine use of the needs analysis tapes in updating New Mexico's database has been discontinued since the essential data elements appear on the CHE files. Computer services, including some data cleaning, are arranged on a contract basis.

The 1981-82 NYSHESC Student Survey data collection was performed in-house and required the full-time services of two individuals (one professional, one clerical) for one year with additional assistance by other professional and support staff for shorter time periods. The NPSAS study and New York augmentation were performed by Westat, Inc. of Rockville, Maryland under contract to the U. S. Department of Education Center for Educational Statistics (CES). Data for the 1986-87 academic year were made available in May 1988. Staff time from the New York agencies was required for planning, communication and cooperation with CES. There was a state expenditure of some $100,000 for the augmentation of the sample. This price reflects a federal subsidy of the state's enhanced participation.

Further Details Available

This paper was prepared by members of the Research Committee of the National Association of State Scholarship & Grant Programs (NASSGP) and presented at the Fifth Annual Conference of the Student Financial Aid Research Network of NASSGP and the Nation Council of Higher Education Load Programs, Inc. (NCHELP). Specific study results and further details on the state-level research options discussed here are available from the authors.

In New Mexico, contact Dr. Porfirio R. Diaz, Director, Planning and Development Program, Commission on Higher Education, 1068 Cerril-

los Road, Santa Fe, New Mexico 87501, (505) 827-8300. The Washington contributor was John Klacik, Senior Program Associate at the Higher Education Coordinating Board, 908 East Fifth Avenue EW-11, Olympia, Washington 98504, (206) 586-1405. New York information and overall manuscript preparation (including responsibility for any errors or oversights) were provided by Marilyn Sango-Jordan, Statistical Consultant, JBL Associates, Box 442, 217 16th Street, Watervliet, New York 12189, (518) 273-8144. A presentation on the National Postsecondary Student Aid Study (NPSAS) was offered at the same event and schedule to appear elsewhere in these proceedings.

Uniformity of Data Elements

The unit record reports and surveys described in this paper contain some common data elements. Financial aid researchers, particularly those of the NASSGP/NCHELP Research Network and the NASSGP Research Committee, stress the importance of common data elements in allowing comparisons across geographical lines and over time. Other states or agencies contemplating the development of unit record reports or survey instruments are urged to contact the authors of this paper or other NASSGP Research Committee members for assistance. To the extent that common data elements are used as new systems are developed, the base of comparable information is broadened and many research purposes are supported.

Section VI

Fifth Annual NSSGP/NCHELP Research Network Conference

List of Attendees

Fifth Annual NASSGP/NCHELP Research Network Conference

List of Attendees

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